



The Green Sheet

The Financial Services Industry Source for Education, Inspiration and Actionable Advice

September 22, 2003
Issue 03:09:02

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Fallout from Wal-Mart Debit Suit Begins to Rain Down

The radio ad entices listeners by posing a question to inspire daydreaming: "What would you do if you had an extra \$100 a day for a year?" I can think of a lot of ways to put extra money to use, and the responses in the ad include a variety of ways to spend it.

It's not an ad for a lottery, or a sweepstakes sponsored by Visa. In the ad, the announcer goes on to say that every time consumers use their Visa-branded check cards, they're automatically entered to win. The catch is that to be eligible to win, they have to sign for the purchases,

See Fallout on Page 51



Join Us in the Celebration!

Our next issue, on October 13, 2003 (03:10:01), will commemorate the 20th anniversary of The Green Sheet. Watch for a special retrospective on how Paul Green's "crazy idea" grew into the industry bible.



- » Neal Anderson-NGA Enterprises
- » John Arato-MagTek
- » Adam Atlas-Attorney at Law
- » Penny L. Baker-National Bankcard Systems
- » Clinton Baller-PayNet Merchant Services
- » John Beebe-Global eTelecom
- » Stacy Bell-Advanced Payment Tech
- » Audrey Blackmon-POS Portal
- » Shannon Byrne-Paradata Systems
- » Robert Carr-Heartland Payment Systems
- » Steve Christianson-TransPay Processing
- » Rob Connelly-VeriFone
- » Wayne Damron-Lynk Systems
- » Steve Eazell-Secure Payment Systems
- » Mike English-Ingenco
- » W. Ross Federgreen-CSRSI
- » Ed Freedman-Total Merchant Services
- » Patrick Gaines-LML Payment Systems
- » Marc Gardner-North American Bancard
- » Alan Gitles-Landmark Merchant Solutions
- » Russ Goebel-Retriever
- » Larry Henry-L. Henry Enterprises
- » Ginger Hollowell-Electronic Money
- » Jared Isaacman-United Bank Card
- » Robert Joyce-Alliance Payment Systems
- » Allen Kopelman-Nationwide Payment Systems
- » Lee Ladd-LADCO Leasing
- » Vaden Landers-iPayment
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- » David McMackin-AmericaOne Payment Systems
- » Doug McNary-First Data Merchant Services
- » Patti Murphy-The Takoma Group
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- » Matthew Swinnerton-Merchant Services Direct
- » Dan D. Wolfe-Barons Financial Group



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The Financial Services Industry, Consumer Education, Strategies and Alternative Advice

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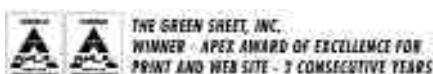
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* Any Sales Professional who sells financial services to the retail merchant marketplace.

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ly readable and understandable. The same holds true for rate charts and commission policies.

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Treat Your MLS Right

I look forward to reading Ed Freedman's "Street Smarts" column in each issue of The Green Sheet. It is very helpful as a learning aid. It has inspired me to write to you about my thoughts regarding the industry, especially the processor-MLS relationship.

I am new to the bankcard processing industry. I have operated in the positions of National Sales Manager; Director, Sales and Marketing; and Vice President, Sales and Marketing in the industrial process control industry and the high-tech defense electronic industry the last 30 years.

I am fascinated by the bankcard industry but also frustrated at the same time. In my prior industries, the manufacturer's rep was number one in the food chain. This person was your lifeline – lose him or her and your company or product line was short-lived.

In those industries, both the sales rep and manufacturer have a means of interviewing each other before deciding to join forces. That type of initial communication just doesn't seem to exist as easily in this industry, perhaps because of the many ISO/MLS players.

Whether you're selling pipes, valves, radar systems or bankcard processing services, your main premise is that your ISO or MLS is your reason for being. The sooner we treat these people as professionals, the more success we as ISOs will enjoy.

There are many ways this can be accomplished. Start by simplifying your proposal package; don't overkill by including extraneous information. Use the old "KISS" formula – Keep It Simple, Stupid. I have seen information packages that would take a rep a week to read. I needed a magnifying glass to read some of the text.

Review your contract and reduce it to simple terms so that it is easi-

Remember that, as an ISO, your image can be made or broken by your representative on the front line. Your MLS is an extension of your company's executive offices. The MLS has to be skilled in handling merchants and also has to be well trained in your products and services.

You want to develop long-term relationships with your MLS family, and the way to do that is to make it easy for them to communicate with you, simplify your procedures and forms, and deliver what you promise. If you make it as easy as possible to sell your products/services, everyone is a winner.

Herb Mordkoff
National Sales Manager
Federated Payment Systems

Finding Information Fast

You helped me out once before and I hope that you can help me again. About a year ago there was an article on a company that did business evaluations for ISOs. Do you know who they are or are there any you could suggest? Also, do you know what they would charge?

Debbie

Debbie:

Without a company name it will be difficult to track this information down. However, please try our site search engine, Fast Finder, by entering "business evaluation." You might strike gold at:
www.greensheet.com/search.cgi?query=

Editor



INDUSTRY UPDATE

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NEWS

It's So Peachy!

Beginning October 9, 2003, **Federal Reserve Offices** will begin issuing to U.S. banks and businesses the redesigned Series-2004 \$20 note, a peach-colored bill with enhanced security features and subtle background colors, as part of an ongoing effort to stay ahead of counterfeiting. New designs for the \$50 and \$100 bills will be released over the next few years. Training and informational materials, including information about the bill's new security feature, are available to download or order through www.moneyfactory.com/newmoney.

Economy Grew More Than Expected in Q2

Preliminary estimates of real gross domestic product (GDP) indicate that the **U.S. economy** increased at an annual rate of 3.1% in the second quarter of 2003, up from the U.S. Department of Commerce's Bureau of Economic Analysis' previously released advance estimates, which showed growth at only 2.4%. Preliminary estimates are based on more complete source data than were available for advance estimates issued in August. The increase in Q2 GDP is attributed to personal consumption expenditures (PCE), federal defense spending, nonresidential fixed investment and residential fixed investment. In the first quarter, GDP increased 1.4%.

Privacy Initiative Passed, Might be Blocked

Following last-minute concessions by opponents,

California Gov. Gray Davis signed SB1, the state's long-pending **financial privacy initiative**, into law on August 27, 2003, but efforts at the federal level to eliminate many of its key provisions began immediately.

The state legislation, the first of its kind in the country, is meant to crack down on identity theft by restricting the sharing of consumer information among financial institutions and their affiliates. At issue on the federal level is the debate over renewing the Fair Credit Reporting Act, set to expire on January 1, 2004, and whether there should be national standards set for sharing this information or if states should be allowed to set their own stricter provisions. (See GS issues 03:07:01 and 03:05:02 for more details.)

First Data Cuts 260 Jobs

In an effort to keep costs down and improve operating margins, Denver-based **First Data Corp.** laid off 260 employees, including 190 in Omaha, Neb., and 100 contract workers. The jobs lost all were in First Data's card-issuing division and included several different levels of employees – programmers, project managers and vice presidents.

FDC, Concord Comply with DOJ Info Request

First Data Corp. and **Concord EFS, Inc.** said they both have complied with the Department of Justice's request for additional information in regard to First Data's April 2003 proposal to acquire Concord for approximately \$7 billion. The combined company would have control over 70% of the PIN-based debit market. The companies



U.S. consumer spending increased 0.8% in July, the Commerce Department reported.

U.S. consumer debt increased 4.1%, or \$6 billion, in July 2003, largely attributed to automobile loans and other big-ticket purchases.

Wal-Mart Stores, Inc. sold more furniture in 2002 (\$1.24 billion) than any other retailer, the Wall Street Journal reported.

Starbucks Coffee Co. plans to open retail locations in two of **Charter One Financial, Inc.**'s banking centers in Albany and Rochester, N.Y. Banking hours for these branch locations will be 6 a.m. to 10 p.m.

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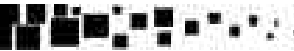
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said they have certified their compliance with the DOJ and that it has the right to challenge their certification. Both companies still expect the deal to close in the fourth quarter of 2003.

ANNOUNCEMENTS

ETA Retires Interconnect

The **Electronic Transactions Association (ETA)** announced that it is retiring "Interconnect," a printed information resource for ETA members on association and industry news. The last issue of the publication was the July/August issue. The ETA now will provide this content through several different media sources: its Web site, Transaction Trends magazine and e-mail updates.

Vital Adds Lipman Products to its Offering

Vital Processing Services Class-A approved **Lipman USA, Inc.**'s retail and direct marketing point-of-sale application to include restaurants for credit, debit, EBT and commercial card processing for the NURIT 2085, NURIT 3000 and NURIT 3010 terminals. Vital also Class-A approved the NURIT 8000 wireless terminal to process through Vital's network.

PARTNERSHIPS

ACH Direct and EXS Partner

Electronic Exchange Systems (EXS) and **ACH Direct, Inc.** have established an ISO credit card relationship that will allow ACH Direct's agents to market and sell from one source for both credit card and ACH processing services and also enable EXS to provide its sales agents with merchant processing services. ACH Direct provides and processes ACH transactions (EFTs).

Convert Currency at the Point-of-Sale

CardSystems Solutions Inc. and **Mtrex** have partnered to provide dynamic currency conversion to ISOs, acquirers and merchants in the U.S. The two companies are integrating their technologies (CardSystems' processing systems and Mtrex's currency management systems) to offer currency conversion originating at the point-of-sale and continuing throughout authorizations, clearing and settlement to chargeback processing.

Both the cardholder and the merchant can make transactions in their currency of choice, knowing immediately how much their purchase will cost and not having to wait for their monthly credit card statement to find out.

CardinalCommerce Wins Two

CardinalCommerce Corp. has won two new customers. Both **Provident Bank** and **First Horizon Merchant Services** will offer CardinalCommerce's payment authentication software, Cardinal Centinel, to their online merchant customers. CardinalCommerce designed the software specifically for acquiring banks, merchant service providers and their merchants – it reduces the number of fraudulent transactions and guarantees payment to online merchants while protecting account information.

Chartway Chooses Certegy

Chartway Federal Credit Union selected **Certegy Inc.** to provide credit, debit and ATM card processing, Internet banking and electronic bill payment services and customer support for at least five years. Chartway has more than \$800 million in assets, 130,000 members and branches throughout the U.S.

DAS Partners with Montana Bank

Diversified Acquiring Solutions Sales Corp. Inc., (DAS) and Missoula, Montana-based **Community Bank** entered into a merchant referral program whereby Community Bank-Missoula will refer new merchant business to DAS (and receive referral income and residual income on all processed volume), and DAS will handle application functions, credit underwriting and will

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provide the sale, setup and servicing of the processing relationships.

CyberSource Offers Check Acceptance

CyberSource Corp. has teamed with **First Data Corp.**'s **TeleCheck** division to offer its merchants the ability to accept checks over the Internet using TeleCheck's Internet Check Acceptance (ICA) service. CyberSource is a provider of electronic payment and risk management solutions.

Moneris Renews with Illinois State Office

Moneris Solutions renewed its payment processing agreement with the **Illinois Office of the Secretary of State**. This state office has been using Moneris Solutions' hardware, software and service/support to accept credit and debit cards and electronic checks over the phone and the Internet.

The office accepts Visa, MasterCard, American Express, Diners and Discover/Novus for business services such as driver's license renewals and new license plate orders. Moneris Solutions' original partnership with the Illinois Secretary's Office in 1992 enabled it to accept credit card payments for the first time.

Kinko's to Use Mosaic's EFT Software

Kinko's, Inc. will use **Mosaic Software's** Postilion EFT software for the authorization of credit and signature debit card transactions initiated in Kinko's stores. In addition, Kinko's will use Mosaic's Postilion at the corporate level as a payment gateway for routing transactions directly to networks and card issuers, which eliminates the need to route transactions from each store to the EFT network via dial-up. Kinko's also will use the software for stand-in authorizations at both Kinko's stores and corporate levels.

Another Clearing House Joins NCE

The Connecticut Clearing House joined the **National Check Exchange's** (NCE) check clearing and settlement organization, adding 16 banks and 428 million checks. With this addition, the NCE said it now clears and settles 4.1 million checks valued at \$8.1 billion on average per day. The Connecticut Clearing House will benefit from the relationship with NCE with access to electronic check presentment and an image exchange network.

Mikasa, Starbucks Choose NPC

National Processing Co. (NPC) signed a multiyear agreement to provide authorization and settlement services for all Visa and MasterCard transactions at **Mikasa, Inc.**'s U.S. retail stores. NPC also will process Canadian MasterCard and Visa credit card transactions for **Starbucks Corp.** NPC already provides authoriza-

tion and settlement services for all U.S.-based MasterCard, Visa and Diners Club transactions for Starbucks' retail, catalog and online sales.

ACQUISITION

Global Access to Acquire 900 ATMs

Ponte Vedra Beach, Fla.-based **Global Access Corp.** signed a letter of intent to acquire approximately 900 ATM/merchant contracts from a privately held company based in the Southeast. Global Access expects the transaction to close by January 15, 2004.

No further details of the deal were disclosed. Through its wholly owned subsidiary, Nationwide Money Services, Inc. (NMS), Global Access provides ATM management solutions such as cash, project and account management services. NMS owns and operates more than 1,600 ATMs across 39 states.

APPOINTMENTS

AMDS Strengthens Management Team

ISO American Merchant Data Services Inc. announced members of its management team: **Bert Adcock** is President and Co-Chairman of the Board; **Don Latourette** serves as Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Co-Chairman of the Board; **Jim Darby** is Chief Operating Officer (COO) and Director; and **Angie Browder** is Executive Vice President. Combined, AMDS executives have more than 37 years of credit card and check processing experience.

Adcock worked at Concord EFS, Inc. for six years and was Director of Customer Service. Latourette owns and manages 21 rental real estate properties valued at more than \$4.5 million. He also has owned and operated a concrete and building materials company for 30 years. Darby worked at Concord for 15 years and was the Director of Operations. Browder was the top Inside Sales Representative at Concord.

Datawire Promotes Two

Datawire Communication Networks Inc. announced appointments to its executive management team as part of an aggressive business growth plan. **Patrick Cummiskey** was promoted to CEO from the position of Senior Vice President of Sales and Marketing; he also will serve on Datawire's Board of Directors. Cummiskey joined the company in October 2002.

Cummiskey previously served as Senior VP of Sales in the Transaction Services Division at Alliance Data Systems; VP of Business Development at Shared

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Network Services, Inc.; and Executive VP, Strategic Development and Senior VP of Sales and Marketing at BUYPASS Corp. (now part of Concord EFS).

Datawire's Senior Vice President of Operations, **Michael Geihlsler**, was promoted to President and COO. Geihlsler has more than 29 years' experience in product and system development, operations, client services and business development in the transaction processing industry. Before joining Datawire in December 2002, he served as Vice President, Client Services for Alliance Data Systems. He also was VP, Electronic Commerce Systems Division at Shared Network Services and Executive VP, Product Development and Senior VP, Operations at BUYPASS.

Zucchini, Taken and Ferrero on EWI Board

EWI Holdings, Inc. appointed **Michael Zucchini**, **Phil Taken** and **Louis Ferrero** to its Board of Directors.

Zucchini is Chairman of the Board of Inovant and a Director of Visa USA and Visa International. He previously served as Vice Chairman of Fleet Boston Financial until his retirement from that position in 1999.

Taken is General Counsel for Tolleson Wealth

Management and a consultant to various companies in transaction processing and financial services. He previously served as Chief Administrative Officer and General Counsel of Paymentech and as Senior Vice President and General Counsel of First USA.

Ferrero is the former Chairman and CEO of Anacomp and the former Chairman of Conseco Global Investments. He currently is the managing partner of Tuscany Ventures.

Williams to Serve as Global eTelecom COO

Global eTelecom, Inc. President **James Ronald Williams** also will serve as Chief Operations Officer (COO). Williams joined Global eTelecom as President in April 2002 and was elected to serve on the Board of Directors in March 2003. He is the founder and former President of EZCheck, a payment guarantee company, and has 20 years of experience in the payment processing industry. Williams succeeds Edward Villarreal as COO.

Global Payments Appoints Two to Board

Alan M. Silberstein and **Raymond L. Killian Jr.** will serve on **Global Payments Inc.**'s Board of Directors.

Silberstein is President and COO of Debt Resolve. He previously served as President and CEO of Western Union; Chairman and CEO of Travelers' Claim Services unit; and head of retail banking for Midlantic Bank. He also managed the credit card business and retail operations and technology for Chemical Bank.

Killian is Chairman of Investment Technology Group, Inc. (ITG), Chairman of the Board of Voice Automation, Chairman Emeritus of the Cotting School in Lexington, Mass., and is a partner in High Street Equity Advisors. He previously served as President and CEO of ITG until he retired in December 2002.

He also was Executive Vice President for the Jefferies Group from 1985 to 1995 and Vice President of Institutional Sales for Goldman Sachs from 1982 until 1985. He is a past governor of the Boston Stock Exchange and also served on the board of the National Organization of Investment Professionals.

MIST Appoints New President/CEO

MIST Inc. hired **David Nyland** to serve as President and CEO. Nyland has more than 15 years of experience in the technology industry. He held senior management positions at Architel and Syndesis. He also worked with Accenture, a global management consulting and technology services company. Nyland replaces Charles E. Lee, who stepped down from the positions in March 2003. ■

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You Are Not Alone

A Merchant Level Salesperson who can read is dangerous. Think about all the resources available to the MLS – and that is exactly what my next series of articles will showcase. "Street Smarts" will examine and evaluate such valuable resources as acquirer associations, trade publications, educational institutions, conventions and conferences, industry associations and related industry Web sites. We'll discuss which resources are most effective as well as those that may not be worth your time and effort.

This column begins the series by highlighting the phenomenon of regional acquirers association meetings, a resource well worth your time and effort. I just returned from the first Midwest Acquirers Association (MWAA) meeting, which took place July 30 to August 1, 2003 in Chicago. It was an extraordinary experience to witness the birth of a resource forum for Merchant Level Salespeople.

The organizers of the MWAA should be very proud of what they accomplished at their inaugural event. Nearly 400 industry professionals were in attendance. The buzz at the registration desk was palpable. I overheard one person on a pay phone telling another, "Hey, you got to come down here and check this out."

The event was well run and well organized. Kudos to the founding board of this organization, which includes President Mark Dunn of Newtek Merchant Solutions, Vice President Caroline Marino of Ingenico, Treasurer Jim McCormick of General Credit Forms and Board Members Mistee Spry of General Credit Forms, Lisa Lenczyk of VeriFone and Lori Carney of First Data Merchant Services.

Highlights of the MWAA conference included panel discussions on such timely topics as electronic processing, gift cards, check conversion, smart cards, ISO rules and regulations, online payment security and future trends. Keynote speakers included Holli Hart-Targan and yours truly. It was during my presentation that I found out how

well received this "Street Smarts" column has been by the bankcard acquiring industry. It was heartwarming and much appreciated. Thank you, readers.

Marino said the response to the event "verified our belief that there was a great demand or need for regional conferences. Many sales reps cannot afford to go to an ETA meeting, so bringing the meeting to them is a terrific solution."

The highlight for me was Bob Carr's presentation during the "Vision of Payments in 2004 & Beyond" session. Although it was a bit controversial, I thought it was right on the money.

We all know that Bob has made invaluable contributions to the industry through his Green Sheet column, "Knowledge is Power." What many of you might not know is that he's also a great speaker.

Bob graciously accepted a Life Achievement Award at the conference and stood up and shared his honor with another pioneer who set the standard for educating Merchant Level Salespeople, Paul Green. It was a sincere and heartfelt speech. (For the full text of the speech, see the August 25, 2003 issue of The Green Sheet, 03:08:02.)

I extend my personal congratulations to Bob for a well-earned award and imagine it will give him even more energy and enthusiasm to continue his valuable contribu-

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Successful sales reps need to ensure that they have the most updated and accurate information to compete in the marketplace. The only way to achieve this is to attend (industry) conferences. If you don't heed this advice, your business will slip while your competitors' businesses will grow.

tions to The Green Sheet and our industry.

If there was anything negative about the MWAA conference, I noticed it during a panel discussion. One of the speakers asked the audience of nearly 400, "Who here is a Merchant Level Salesperson?" The response appeared quite low for an event that was put on specifically for salespeople. It makes me wonder why so few sales reps were there.

This was a fabulous, informative event. All of the vendors with whom you need to set up relationships were in attendance to help educate you. The problem was that not enough of you showed up to take

advantage of this opportunity. You can lead an MLS to water, but you can't make an MLS drink!

Industry leaders are going out of their way to make events like this available because they are responding to sales reps' pleas for locally hosted trade shows/conferences and training events with great vendors and great speakers. The vendors, meanwhile, are looking for opportunities to meet with the people who drive the business – the Merchant Level Salespeople.

It is evident that vendors are willing to provide the resources to make these events worthwhile. The problem is that if you do not show up,

these types of opportunities will disappear.

To stay ahead of the curve, the MLS needs to stay informed about new products and services available in the marketplace, at least on a semi-annual or annual basis. Successful sales reps need to ensure that they have the most updated and accurate information to compete in the marketplace.

The only way to achieve this is to attend these types of conferences. If you don't heed this advice, your business will slip while your competitors' businesses will grow.

The next MWAA event is scheduled

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for the end of July 2004. All of the details will be posted on www.midwestacquirers.com.

Two sister groups on the East Coast, the Northeast Acquirers Association (NEAA) and the Southeast Acquirers Association (SEAA), have been putting together educational forums for several years. These organizations are not-for-profit, non-membership, independent forums dedicated to you, the hard-working MLS! Their mission is to provide a regional opportunity for training, education and networking in the bankcard acquiring community.

The SEAA's third annual meeting is scheduled for October 9, 2003 at The Rosen Centre Hotel in Orlando, Fla. Encouraged by the feedback from attendees at last year's highly successful event in St. Augustine, Fla., the SEAA will expand the number of available vendor spots to 40 and also will increase vendor hall time. An exciting and informative agenda is planned for all participants. For more details, visit www.southeastacquirers.com.

As always, I'd love to hear from you. Please send your feedback on this topic (and any others) to streetsmarts@totalmerchantservices.com. My next column will discuss valuable Web site resources you can and

should be taking advantage of, including the offerings of the new Green Sheet Online Web site. Please continue to look for my posts on The Green Sheet MLS Forum. I welcome all your responses and will include them in my columns. 📧

***"Opportunities are never lost;
someone will take the ones you miss."***

– Anonymous

I'll see you next time where the rubber meets the road.

Ed Freedman is founder and President/CEO of Total Merchant Services, one of the fastest-growing credit card merchant account acquirers in the nation. Ed is the driving force behind all business development activity as well as the execution of Total Merchant Services' marketing plan, including recruiting and training independent sales offices and establishing strategic alliance partnerships with leading vendors, so that Total Merchant Services can provide its customers with the highest quality and most reliable services available. To learn more about Total Merchant Services, visit www.totalmerchantservices.com. To learn more about partnering with Total Merchant Services, visit www.upfrontandresiduals.com or contact Ed directly at ed@totalmerchantservices.com

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►► EDUCATION [CONTINUED]

Your Unhappiest Customers Are Your Greatest Source of Learning

By John H. Beebe

Global eTelecom, Inc.

What do you think and feel when you read the statement in the headline above? Many thoughts come to my mind. Yes, I can kind of see the point here. But so what? I am busy with everything else going on with my company, my customers and my employees, and I have a million other things to focus on. I can tackle this thought after I deal with all of the items on my plate today. But, in truth, that day never seems to come. Sound familiar?

My name is John H. Beebe; I am Chairman and Chief Executive Officer of Global eTelecom. I also am honored to serve as Vice Chairman of the Point of Sale Work Group for the National Automated Clearing House Association (NACHA) Electronic Check Council.

I have had the privilege of writing for The Green Sheet in a limited capacity before – I produced an "Electronic Check Conversion Factoid" by invitation of Paul Green. Many of you might have heard my name but have not had a chance to talk with me personally. Since I am actively involved with NACHA and some industry events coincide with official NACHA meetings, I am not able to attend every event.

In this monthly column, I hope to explore a wide range of topics that impact all of us and will determine the direction we are headed. You also can expect some in-depth and frank discussions about NACHA and how it affects you and your merchants, even if you only sell or provide credit card processing services. I will share how you and your organization can participate in shaping the future of our industry by giving voice to your thoughts, ideas and perspectives.

I also will share some of my background with you, which will help you understand my perspective. I expect this column to grow and mature as time passes, and your thoughts and feedback – positive or negative – would be greatly appreciated.

I want to thank Paul Green and the entire staff for the opportunity to be able to contribute to The Green Sheet again. I greatly admire all of the positive changes and in-depth features that have been added and The Green Sheet's continued evolution and maturation as a knowledgeable, trusted and accurate source of information on our industry.

I spent much time wondering what profound bit of wisdom I could provide in this article. I thought long and hard and had many ideas. However, none seemed to work. Something was missing. I then realized that the only true wisdom I am able to provide (profound or not) would come from my personal insights into the challenges that I have faced and how my company and I have responded to them. The Good. The Bad. Yes, even The Ugly.

Think back to the beginning of the article, when I asked you what came to your mind with the statement: "Your unhappiest customers are your greatest source of learning." Take a deep breath. Think about it again: "Your unhappiest customers are your greatest source of learn-

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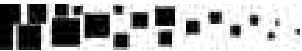


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ing." What sense do you get when you think of your unhappy customers? Slow your mind and focus on that for a moment.

To many of us, there are different types of "unhappy customers." We all know the ones who are going to complain and be unhappy even if we give them everything for free. Right?

But what about the other types? The ones we can't so easily rationalize? Your bigger clients, perhaps a mid-size client or profitable merchant that is difficult to deal with?

Think of the times you have gotten angry phone calls from top clients or merchants – they are on hold to speak with you or have left you an ominous message to return their call immediately. What do you feel now? It doesn't matter whether you are a sales agent, CEO, president, vice president, sales manager or any

other position – we all are human.

Maybe you are a sales agent in the field who has just set up and installed a large merchant, and you get the call that nothing is working right – leaving them at the busiest time of the day without payment processing capabilities.

Or you are a CEO who gets a threatening call from one of the nation's largest retailers, vehemently complaining and detailing a sickening lack of service and support from your company. It feels the same, no matter the size of the client or the scope of the situation.

Some of you may have a sick feeling in the pit of your stomach just thinking about it, while others may cringe a little from the visualization. A few of you may be tempted at this point to stop reading this article because this is unpleasant stuff, but I ask that you please bear with me.

I hope you and I will become empowered and stronger in the process.

There is an old saying, "What a gift it would be to see ourselves as the world sees us." At this moment, this "unhappy" customer is providing you and me with just such a gift. Once we get past what the problem is and perhaps our emotional response to it – anger, pride, ego, even dread or fear – and look at it from a larger perspective, can we see the validity of what is being said?

Sometimes, what customers complain about is truly embarrassing. I have been astonished by some of the appalling errors we have made with our own customers, and it ultimately is a reflection on myself and other members of our company.

The natural human response is denial, to help make the situation more bearable in our minds. (Surely

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we did not do that; there is no way ... sound familiar?)

At times, I even have felt too ashamed and embarrassed to pick up the phone to deal with the situation. It would seem easier to just bury it and move on.

But it's critical to remember that this customer is teaching us something about our company and ourselves. What makes the difference is whether we choose to be afraid to look at "how deep the rabbit hole goes ..." or if we truly seek to deal with the root cause of the reason behind our customer's unhappiness. Your perspective on the situation is what will determine the outcome.

As difficult as it may be at the time, try to look at the situation as a blessing. Despite the outward appearances, this is a positive. The "unhappy" customer who will help refine


you and your company and provide techniques to help you grow.

This is how life works, for we would not grow if we did not have challenges, problems or resistance. This is what defines who we are and makes us stronger even though we may not like the process that we have to go through to get there.

Remember, no company is perfect; everyone is in a constant state of change and growth. We are neither as good as our happiest customer says we are nor as bad as our unhappiest customer says we are. The real truth lies somewhere in the middle.

In business we are all dealt both "Good" and "Bad" cards. Try as we might, there is no way to get around it. Business success consists not in holding only "Good" cards but playing all of your cards well.

When challenges, problems and "unhappy" customers arise, don't be afraid. Alter your perspective to see the positive outcome that can result from even the darkest and worst situations. Hold that thought for a moment. Don't look and respond to the surface situation. See it as a positive.

Think again about that statement, "Your unhappiest customers are your greatest source of learning." Now what comes to mind? 

John H. Beebe is co-founder, Chairman and Chief Executive Officer of Global eTelecom, a nationally recognized Electronic Check Conversion processor and technology solutions provider. John also serves as the Vice Chairman for the NACHA Electronic Check Council's Point of Sale Work Group and in 2001 was nominated for Ernst & Young's Entrepreneur of the Year award. You can reach John at john@globalelcom.com

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►► EDUCATION [CONTINUED]

Stored-Value Gift Cards: They Aren't Just for Breakfast Anymore!

By Steve Eazell

Secure Payment Systems, Inc.

It seems impossible to fathom that at one time we mostly drank just plain coffee for breakfast. There were no venti lattes or mocha Frappuccinos, nor were there half-caff Caffé Americanos with a dash of caramel, and we didn't spend three bucks at the counter for a cup of joe, either. Just good old fashioned "rot gut" coffee that, for the longest time, cost a dime. ("Brother, can you spare a dime – for a cup of coffee?")

Anyway, that was then and this is now. We are now the latte generation, originated and formulated by that famous Seattle institution known as Starbucks. Not only do we now have a veritable cornucopia of caffeinated creations, we no longer confine our consumption to the morning hours. At any given time of the day you will find

a line at the counter ordering one adrenaline-jolting taste wonder or another, frapped, whipped, blended or just poured at our local Starbucks.

Yes, it is true. Starbucks was the one that started us all on our way to spending up to 40 times what we used to on a cup of coffee, but coffee is not what this article is about. You see, not only did Starbucks create an international phenomenon in the world of caffeinated beverages; it also got us hooked on stored-value gift cards.

Granted, Starbucks was not the first retailer to proffer and accept gift cards at the point-of-sale. As a matter of fact, 58% of the top 250 retailers now accept gift cards in one form or another. However, Starbucks did get us to embrace them with the fervor associated with the rest of its brand marketing.

Most of the buzz that we are experiencing with gift cards was initiated in late 2001 when Starbucks introduced them with a flourish. Now, many of you may not know why Starbucks decided to offer its gift card program. And, if you are like me, you will be surprised to find out why.

As I mentioned earlier, we never before considered paying three dollars, more or less, for a single cup of coffee. And not until someone introduced a cup of coffee that actually tasted good (go figure) did any of us think about using a credit card to pay for it.

However, as we began facing the daily three-dollar "mocha chocha ya ya grande latte with a twist," not to mention the two-dollar muffin, it became downright commonplace. That's right, we began financing our new habit with plastic, and Starbucks is paying for it in transaction fees and interchange from Visa and MasterCard.

As you can imagine (just do the math), even with the leverage associated with Starbucks' credit card volume, those fees could add up in a jiffy. So it is only natural to assume that some smart accountant challenged the product development department to investigate the "gift card thing." After all, if it could get its devoted customers to PREPAY for their jolt, then the benefit of future reduced interchange is obvious. For you and me, the rest, as they say, is history.

Because of this simple twist of genius, retailers have begun to look upon the phenomenon known as stored-value gift cards as a necessity and not just a benefit. Americans have embraced the gift card with a fervor unmatched by anything short of the credit card boom of the 1980s. As a matter of fact, according to First Data

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appreciated.

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Merchant Services, which did a survey of the current gift card culture, the results are:

- 75%-85% of U.S. consumers are aware of gift cards.
- 45% have used one.
- The average purchaser spends \$200 per year.
- The average purchaser buys four cards.
- 61% of recipients spend more than the amount on the gift card.

So what does this tell us? First, since the Starbucks Gift Card Revolution, retailers are not just asking for gift cards, they are demanding the capability to generate and accept the gift card at the point-of-sale. It is no wonder – the gift card offers a host of benefits to the merchant as well as to the consumer, not to mention the extraordinary revenue opportunities that it brings to you and me.

Because of that ubiquitous chain of corner havens designed to create and satiate us java junkies, we now have a new craze on our hands. And it is up to us to give merchants what they are asking for.

Starbucks estimates that part of its 23% growth for the second quarter can be attributed to, among other things, its gift card program. You will find that Starbucks has other ideas for the gift card in the works. It is estimated

that at any given time there is more than \$1 million prepaid on its cards. That is a lot of latte not yet poured just sitting in the Bank o' Starbucks collecting interest. And according to a national average, the breakage is realistically sitting at about 15%. Hold the foam! In anyone's book, that is a lot of beans.

So the race is on, and I say to you: Go west, young men and women, and east and north and south, to your local retailers and sign them up. They are waiting for you to show them how they, too, can be like Howard (he was the one who bought Starbucks and changed the way we drink our coffee forever).

On your way out, be sure to pick up your grande vanilla latte. For if it was not for Howard's brilliant idea to get us to fork out big bucks to get our adrenaline fix, it would not have spawned the notoriety and overnight sensation of stored-value mag stripe gift cards nationwide. ☑

Steve Ezell, a 15-year veteran of the payment industry, is the Director, National Sales and Marketing for San Diego-based Secure Payment Systems, Inc. (SPS), a national provider of value-added services, including electronic check and stored-value gift card services. For more about SPS, visit www.securepaymentsystems.com. E-mail Steve at sezell@securepaymentsystems.com.

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Coming in October: Visa's RED Will Change Chargebacks Forever

By David H. Press

Integrity Bankcard Consultants, Inc.

Effective October 4, 2003, Visa USA will eliminate the second chargeback and second re-resentation as part of its ongoing Re-Engineering Disputes ("RED") Project. The RED changes are designed to streamline the chargeback process by capturing the dispute information electronically to track receipt of the documentation/information by the correct party and reduce the time to resolve chargebacks.

To expedite dispute resolution and facilitate exchange of information rather than simply providing documentation, the second chargeback cycle is being eliminated. If a dispute is not resolved after one dispute cycle, the issuer, rather than the acquirer, will decide whether to file for arbitration.

Additionally, the retrieval request-related "second first chargeback" will be eliminated. This means that merchants should provide all of the information necessary to rebut the chargeback the first time because it now will be the only time.

Here are some definitions of chargeback terms the Merchant Level Salesperson should understand:

- **Retrieval Request:** An issuer's request for a transaction receipt, which could include a paper copy, a facsimile or an electronic version.
- **Chargeback:** A transaction that an issuer returns to an acquirer to reverse a transaction.
- **Chargeback Advice:** A VisaNet message, sent in response to a chargeback, that notifies the issuer of the VisaNet Documentation Automation Service status of the acquirer.
- **Chargeback Period:** The number of calendar days from the central processing date of a transaction receipt, during which time the issuer may exercise a chargeback right.
- **Re-resentation:** A clearing record that an acquirer presents to an issuer through interchange after a chargeback to reverse the chargeback.
- **Arbitration:** A process where Visa determines financial liability between issuers and acquirers for transactions that are presented and charged back.
- **Presentment:** A clearing record that an acquirer presents to an issuer through interchange, either initially (a first presentment) or after a chargeback (a re-present-

ment).

- **FastTrack Exhibits:** A series of specific questionnaire-style exhibits designed for each chargeback category to facilitate the exchange of information in the chargeback process. A FastTrack Exhibit is required when documentation is sent to the opposing member and may be used in place of a cardholder or merchant letter.

- **Visa Resolve Online:** The new online Visa service for the retrieval and transmission of dispute resolution information and documentation.

- **Transaction Receipt:** An electronic or paper record of a transaction (or a copy, including microfilm), generated at the point-of-transaction, including:

- Credit Transaction Receipt
- Electronic Transaction Receipt
- Guest Folio
- International Airline Transaction Receipt

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After receiving a presentment, an issuer may charge back a transaction to the acquirer. Similarly, the acquirer may re-present the chargeback to the issuer if the merchant can provide information to rebut the chargeback.

Effective October 4, 2003 an issuer must not charge back the transaction a second time, and the acquirer must not present the transaction a third time. So it is important for the merchants to provide all rebuttal information for the chargeback.

A member has the right to file for arbitration after receiving a subsequent chargeback or re-presentment.

If requested by the acquirer and permitted under applicable law, the issuer should provide the cardholder's address.

An acquirer must not process a transaction as a first presentment (i.e., a sale) if the transaction previously has been charged back.

Also effective October 4, 2003, Visa's operating regulations have been revised to require the use of Visa Resolve Online for the transmission of all the chargeback and re-presentment documentation as well as all arbitration and compliance case filings, including pre-arbitration and pre-compliance.

To re-present a chargeback, the acquirer must provide the issuer with the following:

- Any documentation or information to remedy the first chargeback.
- When documentation is provided, applicable FastTrack Exhibit.
- When information not available as Member Message Text is provided to support a re-presentment, applicable FastTrack Exhibit.
- For non-fraud related disputes, the acquirer also may provide the applicable FastTrack Exhibit, in lieu of a merchant letter, to convey the required information for a re-presentment right.

Effective October 4, 2003, the acquirer must transmit this documentation via Visa Resolve Online or, if unable to transmit the required documentation, the acquirer must use the appropriate message code to notify the issuer that the documentation is being sent by mail and must mail

the document in a special envelope within one day of the central processing date of the chargeback.

Finally, as part of the ongoing RED project, the Visa Mediation Service will be eliminated effective October 4, 2003 for Visa USA only.

The good news is that the chargeback process will become more streamlined and should become less confusing to the merchant.

It is going to be extremely important in re-presenting chargebacks to provide information and documentation that actually rebuts the cardholder complaint and not just send the same information for each chargeback.

The vast majority of a typical merchant's chargebacks are for only two or three different reason codes. Work with merchants to have them understand how their chargebacks are occurring and to take steps to prevent and defend them. ■

David H. Press is Principal and President of Integrity Bankcard Consultants, Inc. Phone him at 630-637-4010, e-mail him at dhp@integritybankcard.net or visit www.integritybankcard.net

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Legal Ease

Question: Should I Finance My ISO?

By Adam Atlas

Attorney at Law

The decision to finance a business is usually more of a business decision than a legal decision. However, once the decision to finance is made, there are important legal issues to be considered in structuring, drafting and implementing a financing of the ISO business.

Most of the clients that I advise on financings have been in business for at least five years and are in a position to plan the future of their businesses with a greater measure of certainty than startups. This does not mean that financing is only for veterans, but some experience might be useful before mortgaging your business to a lender.

Here are 10 points (among many others) to be considered from a legal and business perspective when you decide whether to enter into an ISO financing transaction:

1. Do You Need It?

I always advise against entering into a financing unless the need for it is clearly demonstrated. There are two fact situations that, more than others, demonstrate the need for financing.

The first is where the business will fold without an injection of additional cash. In this situation, the principals of the business need to decide whether they will allow the business to go under or whether they will take the additional risk of a financing (i.e., a loan) to stay afloat.

The second situation where financing is particularly useful is where an ISO wishes to expand significantly within a short period of time and lacks the resources to do so. A decision in this second situation requires a balancing of your interest in a successful but slow growth business versus a faster growth but higher risk business. At the end of the day, these are business decisions for you to make.

2. Who is the Lender?

As many of us know from personal mortgages, the relationship between a lender and a borrower is quite intimate. Some borrowers make the mistake of borrowing from the first lender who is willing to lend to them

without adequately researching the alternatives.

It is always in your interest as a borrower to compare the terms offered by a lender with those of other lenders. In addition, try to find another ISO that has borrowed from your proposed lender and find out what the borrower's relationship with the lender is like. I advise all of my clients that the relationship between parties to a contract is at least as important as the wording of the contract itself.

3. How Much?

Never forget that, to a certain extent, it is in the interests of the lender to lend you more money than you actually need. All businesses need a cash reserve, but avoid borrowing significantly more than you actually need.

The first reason for this is that you will end up paying

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more interest than required to save or expand your ISO business. A second reason is that you will extend the time during which your business is vulnerable to creditor remedies (i.e., foreclosure).

4. At What Rate?

What is the interest on your borrowing? Remember, interest rates are at their lowest level in 20 years. Shop around for the best rate.

5. How Long?

When are you expected to pay back the loan? The first instinct of a borrower is often to see how late a loan can be paid back. However, don't forget to also consider that you may wish to repay the loan early. Consider the possibility that your business may be more successful than you had planned, and structure the terms of your loan documentation accordingly.

Give careful consideration to the penalties that will apply to both late payment and early payment.

6. Negative Controls?

Negative controls are a shopping list of activities that will be subject to a veto of the lender once the loan has

been disbursed. Typical negative controls include the following: restrictions on transfers of shares of the borrower, restrictions on business activities of the borrower, restrictions on spending by the borrower and restrictions on further borrowing by the borrower.

Borrowers often make the mistake of thinking that these are not negotiable items. The saying "He who has the gold makes the rules" has some truth to it, but the lender has a business reason to enter into a financing transaction and therefore has a business motivation to do it on terms that all are agreeable to the borrower.

Pay careful attention to the list of negative controls and consider whether your business can operate effectively under them. Negotiate accordingly.

7. Security

Lenders will require various forms of security to make sure their loan is repaid. Some typical examples: a security interest in residuals of the ISO (i.e., if you don't pay back the loan, the bank gets your residuals), a security interest in the shares of the borrower, and a promissory note stating that upon a default the full amount of the loan will become due in a personal guarantee by the principal shareholders of the borrower.

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Once again, the types and terms of security granted are negotiable and should be negotiated.

8. What is a Default?

Read the default clauses to all loan documents carefully. You likely will be surprised by the simple actions or inactions of the borrower that may constitute a default. Make sure that a default may not occur by actions of the lender alone. In other words, the lender should not be able to declare a default "at will."

Be sure to understand all of the default clauses and consider what might happen if each one of them were triggered; this piece of work may save your business from seizure by the lender.

9. Residual Protection

The key asset of an ISO is usually its residual income. When a lender to an ISO forecloses on its loan to the ISO, the principal asset used to pay down the loan owing to the lender is likely to be residual income on the ISO portfolio.

What is strange about this scenario is that the best entity to protect residual income in the ISO portfolio is the

ISO itself and not the lender.

When negotiating with a lender, consider what kind of mechanisms will be put in place for the lender to properly manage the ISO portfolio before and after a default by the ISO.

10. Get Legal Advice

Advice from your lawyer, or a lawyer with expertise in financing and the electronic transactions business, is highly recommended when financing an ISO business because the wording of loan documentation is often technical and should be reviewed by an expert to protect your interests.

In addition, your lawyer can make suggestions that you might not have considered. I would prefer not to have to make this point so blatantly, but the subject of this column makes it necessary. ■

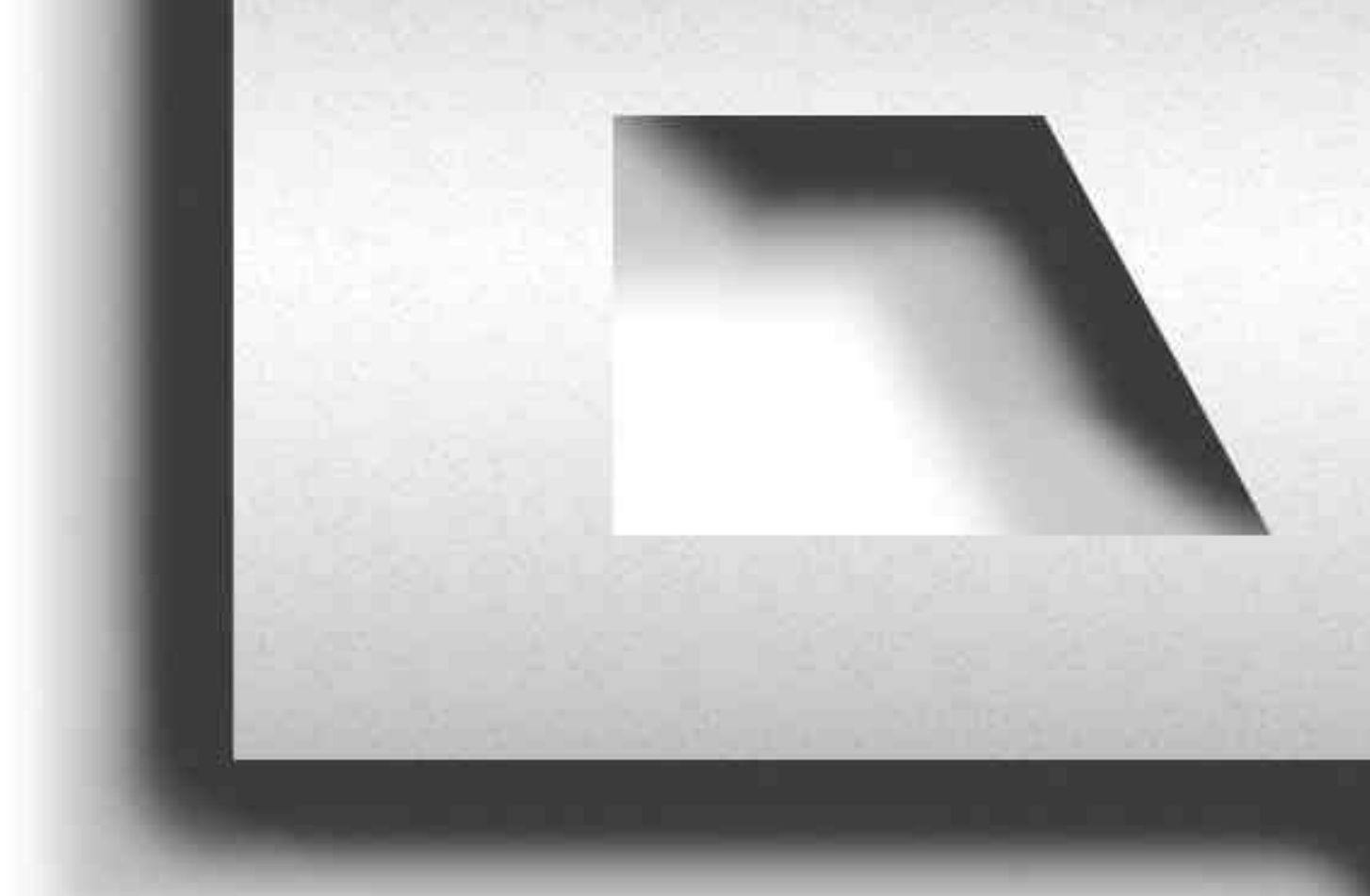
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Many people say they have integrity, and it makes good business sense for people to say the same about the way they run their companies. But when you think about it, few people really do incorporate that quality into their personal and professional lives. Fewer still would feel strongly enough about the importance of this quality to use it as their company's name.

Mike Ponder, President and CEO of Integrity Payment Systems, does things the way he knows they should be done. People who have dealt with him over the years continue their working relationships with him because of his high standards.

"He's one of the most honest, stand-up guys in the business," said Scott Rutledge of The Phoenix Group. Rutledge has known Ponder since 1990 and although they've never worked together at the same company, they've built a solid relationship through numerous business deals.

"When Mike gives his word, you can bet the farm that event will take place," Rutledge said. "He's the type of guy that does what he wants and does what he says he'll do. That's what's so refreshing about his business. I would use the words 'honesty' and 'integrity' to describe him without hesitation."

Mike Grossman, Senior Vice President of Lipman USA, has worked with Ponder since his company first introduced its products in the U.S. 10 years ago. Their excellent working relationship, Grossman said, has flourished over the years in large part because of Ponder's high standards. "He's one of the good guys," Grossman said.

Throughout his life Ponder has stuck to his beliefs and lived and worked by his values. "I am very fortunate to have been raised in a home that taught me core values in life. My father was, and still is, a tremendous example for me," Ponder said. "He lives his life by making his word his bond, and his handshake is his signature. His love for the West and his passion for the outdoors impacted my life tremendously and has instilled those same passions in me."

After growing up in Chicago, Mike didn't immediately start his career in the bankcard industry. Rather than choosing a formal education, Ponder packed his van and "headed out West."

The westward trail lured him to Idaho, Montana, New Mexico and Washington, where he spent the next several



years. His passion for outdoor activities led him to work on ranches. He shod horses, guided wilderness trips using pack mules, and even rode saddle broncs in rodeos. "Out West is where I got a real education about life," he said.

Ponder said one of the best experiences of his life was working with an organization called Vision Quest, based in Tucson, Ariz. This organization takes troubled youths out of state institutions and gives them the opportunity to turn their lives around by learning to trust and rely on others in an unfamiliar, untamed environment. "Those kids needed you to be a brick wall yet love them at the same time," he said.

Although Ponder was hired to handle the livestock that supported the wagon train and wilderness programs, he became a youth counselor and ended up serving as the organization's youngest Senior Professional Administrator.

While on a visit home Ponder met his soon-to-be wife, Carolyn. She lived in the Chicago area at the time and, despite his best efforts, Mike couldn't quite convince her to give up city life for a home on the range. So, Ponder moved east, and he and Carolyn were married in 1988. They recently celebrated the birth of their first child, Greyson West, on July 10, 2003.

Ponder recalled that before going out West he dabbled in sales. "I even sold vacuums door to door. Sales came easily for me." So in 1988, living again in Chicago, Ponder went back to his roots in sales, returned to the streets and eventually sold bankcard.

Based on what he learned in those early years, Ponder believes that the sales organization is the lifeblood of any company.

"I know what it's like to walk the street and open that 1,000-pound door and pick up that 500-pound telephone. I've run a successful sales office, so I also know what it takes to hire and retain good sales people. Most of all, I



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learned that excellent back-room support is critical in order to have a successful sales program."

By 1991, Ponder had worked his way up to Vice President of Sales for Harbridge Merchant Services. In 1992, he joined the founders of Universal Savings Bank of Milwaukee (USB) to lead the sales effort for that start-up venture.

"Processing deals was my forte," he said. "Because of my sales experience, I knew how to design an organization around sales. Carolyn and I had a lot to do with developing the back room at USB – processing deals, setting up leasing programs, developing a sales and marketing strategy. By the time I left USB, they were a billion-dollar processor with over 25,000 merchants generated from my recruiting efforts."

Then, in November 1995, he was presented with the opportunity to be a founding partner of a processing company with Frank Farrar, former governor of South Dakota and owner of First Savings Bank (FSB). Ponder saw this as an opportunity to expand on ideas carried over from USB.

"We developed First Savings Bank's Merchant Division from the ground floor up," Ponder said. "Frank brought the bank to the table and we developed all systems internally, except for authorization and capture, which we relied on Paymentech to support."

The key to the venture was their approach to the bank/sales agent/merchant relationship.

"I have a saying: 'He who issues the merchant number the quickest and pays the quickest wins.' I've lived by

that," Ponder said. "To me speed and accuracy are everything. Our 'same-day turnaround' program meant we would issue a live merchant number and ship equipment the same day we received a merchant application. We also had a true guaranteed lease program. We did it every single day. We never missed a beat and had no business interruptions. The sales organization had a real sense of consistency; it was a place they could call home."

FSB's merchant processing arm was a system that worked well for everyone involved. Ponder and his staff placed great emphasis on reliable customer service for both customer groups – the sales agents and the merchants they acquired. The result: From booking its first merchant in 1995 through February 2000, FSB became a billion-dollar-plus processor.



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Another essential element in the success of their program at FSB was the fact that it was a one-stop shop. It handled every aspect of merchant accounts in-house, from applications to processing, equipment deployment and risk management.

"When you control the process, you can control the chaos. At FSB, the only things we outsourced were authorization and capture," Ponder said. "I'm a firm believer in doing everything in-house, and there's a reason for that. You need sound support systems operationally, otherwise sales efforts are futile.

"I'm not a control freak, but I do want to control the process. Inconsistency can't be tolerated when you're dealing with straight commission representatives. They have to have a high level of reliability from the organization they are

representing. I know from my time on the street it's feast or famine out there."

After FSB's Merchant Processing Division was acquired, Ponder did a lot of soul-searching.

"While I sat on the sidelines I saw the industry changing," Ponder said. "I felt the need to create a company that exceeded even what we had at FSB. I felt it needed to provide traditional bankcard services, but it also needed to go beyond that to offer the newest products the marketplace is demanding.

"But most of all, regardless of how the industry changes, I knew there was still a need for a company that put sales at its heart and focused on providing consistent and reliable support for both sales agents and merchants."

So he and Carolyn set out to form Integrity Payment Systems with Farrar. Things at IPS are not that much different than they were at FSB.

"We formed IPS by building upon the concepts we had at FSB," Ponder said. "And because we are fortunate to have virtually the same management team that we had at FSB, there was no learning curve, even from the very first transaction for the first boarded merchant."

They took back their former FSB office space in October 2002. Farrar still owns First Savings Bank, and, as at FSB, Carolyn serves as Chief Operating Officer for IPS.

The name for their new company, Ponder said, came from an idea that kept working itself into all their discussions about how to run the new

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venture, and it reflects Mike and Carolyn's shared goals for their operation.

"We recognized that when you say 'integrity' in a marketplace like ours, it's a tall order to fill," Ponder said. "We're grateful we chose it. Every single day when I walk through the door and see the company logo, it's a reminder to me that I, as the CEO, have an obligation to see to it that my actions and the actions of my staff live up to our name."

Setting the bar just a little higher than everyone else shows in every interaction IPS has with clients and vendors alike. Grossman said the support his company received from Ponder in his various business ventures has been a big factor in Lipman USA's success.

When Lipman was looking for ISOs to support its products, Ponder

included Lipman's terminals as part of his solutions; Grossman said Lipman equipment was part of the training at monthly sales meetings Ponder conducted for his agents.

"He's known for providing all aspects of support, not just terminals, and for providing a high level of service," Grossman said. "He really helped Lipman get where we are today."

Mitch Jacobs is CEO of Tranvia, a company that has provided processing support services for IPS for almost a year. He said Ponder knows what he wants to achieve and that this approach has been beneficial to Tranvia's business as well.

"It's nice to work with a client who has a focus," Jacobs said. "It helps us stay on course. He has a specific set of objectives when he comes to us, and we know that he has requests

for services that meet high standards."

Regarding IPS' "everything in-house" strategy, Ponder said, "We do the complete underwriting, issue the merchant number and build the terminal download file. We even have the encryption key for loading PIN pads in-house. We perform all risk management functions, and our people provide merchants a one-on-one personal explanation and resolution of retrievals and chargebacks.

"At IPS we deploy the live, tested equipment the same day we receive a merchant application. When a sales representative or a merchant calls customer service, they get a real person answering the phone, not a voicemail maze. It all goes back to our belief that our first customer genuinely is the sales representative. If they're not happy, they'll represent somebody else.

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To make that statement a reality, IPS' staff is trained and cross-trained in the various tasks involved in running the company. Ponder believes that cross-training ensures high quality support will always be available to the sales organization and the merchants. More than that, it breaks down barriers between departments.

Cross training, he said, creates knowledge and respect for the contribution of everyone within the company. The staff ends up running more efficiently as a team, and they work together to create an atmosphere that enables growth. "Carolyn and I are fortunate to have great people working with us," he said. "They go above and beyond to carry out our vision."

For the companies and people who work with IPS, that positive attitude comes across in a big way. "They're a very friendly group of people," Tranvia's Jacobs said. More important, though, "Mike comes from a strong set of values, and the staff follows his lead. From our perspective as a vendor, it's very refreshing to deal with an organization where everyone is on the same page."

Ponder said IPS relies totally on an independent sales force.

"We'll bring on-board people who just got into the business or those who have been in the business a long time but are looking for a direct relationship. We have revenue-share programs designed for individual agents and programs for larger sales offices as well. Because we do the settlement in-house, we can offer the flexibility the agent needs to sign an account. Whether you write two contracts a month with us or a hundred, we truly service everyone as if they're the only customer we have.

"A high level of service comes with a cost. If an agent is coming to us looking only for the lowest price, I'm probably not the right shop for them. But if they're genuinely looking for a relationship with a high level of merchant retention to help them build long-term residuals, then we're right for them.

"What the salesperson does – acquiring merchants – is the hardest part of the whole cycle. We become a one-stop shop for those agents. We take away the administrative burden by handling everything in-house and simplifying their administrative burdens. That allows the salespeople to do what they do best – sell!"

Jacobs said Ponder's affinity for sales agents has contributed to IPS' reputation for being easy to work with. "Mike has that experience of having been in the field and selling himself," Jacobs said. "Those are his roots, and he's built an entire organization around the needs of salespeople."

These days, the demands of business and family have reduced the amount of time Ponder is able to spend in the wilderness, but every once in awhile he's able to fit something in. This fall, he has a whopper of an adventure scheduled: He'll be bow hunting grizzly bear in British Columbia. The bears may not appreciate Ponder's on-target approach as much as his agents and merchants, however.

Mike Ponder's commitment to sticking to his beliefs has been what his entire career has been about. By setting high standards for himself, whether riding the trails as an outfitter or running a payment processing company, he has made working with integrity his number one priority.

For more information about Integrity Payment Systems, visit www.integritypaymentsystems.com. To contact Mike Ponder, phone 888-477-4500 or e-mail mponder@integritypaymentsystems.com.

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Bridgeview Payment Solutions was recently acquired by National Processing Company (NPC), the second largest merchant acquirer in the world, and is now **Best Payment Solutions**. While our name has changed, the service and quality you have come to expect has not.

Best Payment Solutions remains focused on the success of its customers and providing unparalleled service for all merchant types. Combining our reputation and experience with the strength and reliability of NPC, it's clear that Best Payment Solutions is your partner for the future... and the **best** choice for your business.

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Fallout from Page 1

not use a PIN number, to authorize the transaction.

According to the official sweepstakes rules for "Visa Everyday Dreams" posted on the company's Web site, all transactions paid for with signature-based Visa check cards between September 1 and October 31, 2003 will establish eligibility. An entry is issued every time the check card is used for shopping for groceries or clothes, filling the gas tank, paying bills or making purchases via the telephone or Internet.

PIN-based purchases and ATM transactions – in other words, those processed over regional networks – do not qualify. Only purchases made with a Visa check card in good standing, issued in the U.S. by a participating financial institution and processed through Visa USA's transaction-processing system, are eligible for automatic entry. Cash withdrawals, balance transfers, non-U.S.-dollar purchases and Interlink-processed transactions also are excluded from entry.

Online debit doesn't count, so forget the PIN and don't leave home without your offline debit check card.

This is not only a potential reward for a lucky customer who selects the signature-based way to use debit, it's the more profitable option for Visa. It's also at the center of controversy brought to light in the "honor all cards" antitrust lawsuit, in which Wal-Mart and nearly four million retailers challenged Visa and MasterCard over debit card fees.

Is it a coincidence that this particular sweepstakes is happening now?

There are a number of factors coming in to play all at once in the debit market, and what result these events will have on the way banks issue debit cards and merchants accept them remains to be seen.

The fallout from settlement terms of the retailers' class-action suit against the two associations will be broad and will impact everyone involved in processing debit and credit transactions – banks, associations, merchants and consumers – from several directions.

For Merchant Level Salespeople, depending on which market segment you target, it may affect the products you sell and to whom you sell them. Understanding the differences within the market has never been more important. Convenience stores and QSRs are two big growth areas for debit, but the average ticket price for either is around \$10. Why should they bother accepting the more expensive signature debit?

Among the occurrences in flux:

- Interchange fees for signature (offline) debit transactions have been reduced by one-third as of August 1, 2003; after January 1, 2004, Visa and MasterCard will negotiate with merchants to set new fees and then will notify their member card-issuing banks what they will be paid. TCF Financial Corp., whose debit card operation is the 11th-largest Visa program, is the only bank thus far to publicly protest this process, calling it price fixing. It stands to lose considerable revenue and wants to be included in the negotiations.
- MasterCard already has introduced the updated identifier design on debit cards from its issuers. As part of the settlement, debit card issuers are required to adopt and implement new design standards to make it easier to tell a debit card from a credit card beginning January

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1, 2004; all debit cards must be completely reissued (at the expense of the issuer) and incorporate a distinctive identifier by January 1, 2007. The new Debit MasterCard Hologram features the word "debit" within the MasterCard Identification Area.

- Visa and MasterCard will pay Wal-Mart and the other retailers \$3 billion under terms of the settlement. How it will be paid and who will actually pay it have not yet been determined.

Encouraging consumers to increase usage of a credit or debit card with rewards of all sorts is not unusual. The differences this time are that "Visa Every Day Dreams" follows the April 2003 settlement in the retailers' suit and that the sweepstakes is taking place even as several banks and debit issuers are paring back or eliminating their debit card rewards programs.

U.S. Bank, the nations' fifth-largest Visa debit issuer, is reducing the cash rebate amount it has paid its customers through its "Checking That Pays" program. Debit card transactions that have paid \$1 per \$100 spent will now pay only a flat 0.25 percent or 25 cents per \$100.

Fifth Third Bank also has stopped marketing similar programs. Signature-based transactions have generated much higher fees – and higher revenues for issuers – than PIN-based transactions, and up to now those fees have funded rewards programs, such as cash back or redeemable points.

As part of the summary judgment, the card associations agreed to several settlement contingencies, including lowering interchange rates for both offline (signature) and online (PIN-based) debit transactions. Beginning in 2004, merchants will not have to "honor all cards" and accept signature-based Visa or MasterCard debit transactions, for which they pay an average of 99 cents to \$1.01 per \$100 transaction.

Since the settlement, Visa USA has issued several statements regarding its commitment to providing consumers and merchants with the greatest number of payment options. According to a statement on the company Web site, there are 120 million Visa check card holders making more than 25 million transactions a day in five million locations in the United States. Sixty percent of U.S. consumer payments are made with cash or checks, totalling \$4.8 trillion annually.

Visa says it is the debit leader; debit accounts for 51% of the \$1 trillion worth of transactions it processes and 30% of its sales volume, according to Visa USA president and CEO Carl F. Pascarella. "We're no longer a credit card company, we're an electronic payments company. What we're looking for is less cash and less checks," he told the Associate Press in an interview.

MasterCard also has set its sights on getting consumers to migrate from using cash and checks to debit for purchases in all areas. In an interview with the Associated Press, Ruth Ann Marshall, President of MasterCard International's North American Division, said her company leads in the credit arena, with 315 million cards issued in the U.S. compared to Visa's 263 million. Marshall said that debit growth is 2 1/2 times that of credit and that the real competition lies in cash and checks.

U.S. District Court Judge John Gleeson is expected to approve final terms of the summary judgment in the retailers' class-action suit against Visa and MasterCard on September 25, 2003. The debit dust won't settle completely until long after that. ■

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Intuit to Acquire Innovative Merchant Solutions

Financial management software developer Intuit, Inc. has signed an agreement to acquire payment processor Innovative Merchant Solutions. The deal was announced on September 2, 2003 and is expected to close by the end of the month.

The acquisition of IMS will enable Intuit to expand the line of financial management tools it can offer to small businesses. Intuit has been actively executing a strategy to round out its offerings; beginning with QuickBooks for accounting, the company's products now include tools that help businesses manage all aspects of their operations, from accounting and taxes to payroll, benefits administration and retirement planning.

"The acquisition of IMS enables Intuit to strengthen our offering for a critical 'beyond-accounting' service – merchant account services," Steve Bennett, Intuit's President and CEO, said in a statement. "IMS enables us to expand from that base by providing merchants with an enhanced offering, including a broader range of payment options such as PIN debit card processing and swipe terminals."

Joe Kaplan, CEO of IMS, said in a statement, "Like Intuit, Innovative Merchant Solutions has grown and prospered because we understand our customers and focus on delivering services that dramatically simplify how they do business.

By combining the expertise and resources of both companies, we

believe we can deliver even more value to customers – and more growth for Intuit."

Under terms of the agreement, Intuit will acquire IMS' entire equity, valued at up to \$116 million in cash. IMS is profitable with a net revenue of \$25 million and is expected to contribute to Intuit's revenue and profit growth. The company said the acquisition will enable Intuit to tap into the profitable merchant account services market, including debit and credit card processing.

Kaplan will continue to lead the IMS group, and the company's 110 employees will be asked to join Intuit. IMS has been in business since 1999 and offers a full range of merchant account services, targeted for small businesses. ■

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Wachovia Trades Concord for Visa, FDC

The number five U.S. bank, Wachovia Corp., announced it is dropping Concord EFS, Inc. as its debit and ATM processor and instead has hired Visa International Inc. and First Data Corp.

Concord EFS processed Wachovia's PIN-based debit and ATM transactions through its STAR network, in conjunction with First Data's NYCE. Visa DPS will now handle Wachovia's signature-based debit cards, Visa's Interlink will handle PIN-based transactions and First Data's NYCE network will handle ATM transactions.

Wachovia is moving its business

before Concord's contract expiration date of December 31, 2004.

The bank said it has about 7 million debit card holders, which makes it the fifth-largest provider of debit cards in the U.S.

Wachovia picked Visa and First Data after an 18-month review of processors that began when First Union Corp. (FUC) bought it in 2001 (FUC kept the Wachovia name). Since the two banks had two different network relationships and different logos on cards they issued, the combined company had to decide on only one processor.

The bank said it had the best service for its customers and the best return for its shareholders in mind when it made the deal with Visa and First Data.

Terms of the deal were not disclosed.

"While we're disappointed that Wachovia reached this decision, the STAR network contributes significant value to our customers' delivery systems, and such value is worthy of fair compensation and profitable returns," Bond R. Isaacson, Co-CEO of Concord EFS, said in a statement.

Concord may see Wachovia's business again, although under the First Data name, if First Data's proposed \$7 billion acquisition of Concord is approved by the U.S. Department of Justice. First Data expects the deal to close in the fourth quarter 2003.

In March 2003, First Data learned it would lose its largest customer, Bank One Corp., when the bank announced plans to move its credit card processing business in-house. The two companies still are working together to ensure a smooth transition. ■



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FTC Files Complaint against Payment Processor



The Federal Trade Commission (FTC) filed a complaint in U.S. District Court for the Western District of Texas, Waco Division, charging Electronic Financial Group (EFG) and its principals with providing assistance to fraudulent telemarketers seeking to drain funds from consumers' checking accounts.

The allegations involve several violations of the Telemarketing Sales Rule (TSR), the FTC Act and charges of breach of contract.

Paul McClinton, Jerry Federico and Randy Balusek are named as defendants in the case as individuals and officers of Electronic Financial Group, Inc. and EFG Card Services, Inc.

The FTC's complaint, filed in July 2003, claims the defendants processed transactions through the

Automated Clearing House Network (ACH) for numerous fraudulent telemarketers. It charged that, since April 2000, they also engaged in the deceptive marketing of their own advance-fee debit cards, called the First Freedom Financial Card and the AmeriOne Card. The cards are stored-value cards that consumers used to withdraw funds they had deposited with EFG.

The FTC said the company made unauthorized charges and debits to consumers' bank accounts. In May 2003, the complaint stated, EFG began marketing a new advance-fee card called the United USA Card and made many of the same misrepresentations it had made for the other ventures.

EFG also is in breach of contract with its bank for not adhering to the NACHA Operating Rules that gov-

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ern the ACH Network, according to the FTC. These rules include provisions that prohibit processing ACH transactions for merchants who engage in outbound telemarketing to consumers with whom those merchants have no existing relationship.

The complaint alleged that EFG violated the TSR by providing substantial assistance and support to numerous client telemarketers even though it knew (or consciously avoided knowing, according to the FTC) those telemarketers were engaged in business practices that violated the rule.

Many of the outbound telemarketers for whom EFG processed transactions previously had been sued as scams by the FTC. EFG assisted and facilitated at least four client telemarketers who engaged in deceptively selling advance-fee cards and a fifth client engaged in deceptively

selling a lottery scam, the complaint alleged.

According to the FTC, EFG targeted sales of its own advance-fee cards to consumers with poor credit; the First Freedom Card was pushed by telemarketers, the AmeriOne Card was promoted over the Internet.

The defendants charged consumers a one-time advance fee ranging from \$80 to \$100 and a \$9.95 monthly service fee for the cards.

The FTC said that EFG misrepresented that the cards were credit cards affiliated with MasterCard by using the MasterCard logo and that it would report consumers' AmeriOne account activity to the three major credit bureaus to establish or improve credit.

EFG, located in Waco, Texas, provides processing services for elec-

tronic payment transactions for clients in the U.S and Canada. It has been in business for 10 years, according to the company Web site.

The FTC is seeking compensation for consumers and the repayment of fees EFG earned illegally by processing transactions for the fraudulent telemarketers. The U.S. District Court issued a temporary restraining order and appointed a temporary monitor to review the defendants' business practices and report to the court before the preliminary injunction hearing.

According to an FTC statement, it files a complaint when it has "reason to believe that the law has been or is being violated, and it appears to the Commission that a proceeding is in the public interest." The complaints filed are not findings; cases must be decided by the court. ■

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TRADE ASSOCIATION NEWS

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By Julie O'Ryan-Dempsey

General Manager

We are in the thick of the fall trade show schedule, and the GS staff is attending many of these events. We encourage you to attend these events and will include a recap of each show in future issues. For a complete list of meetings and contact information, visit the Green Sheet Online. The "Industry Resources" section includes both the Tradeshow Directory and Trade Association Directory.

Bankcard Association of Southern California

The BASC's End of Summer meeting, focused on gift and loyalty cards, took place August 28, 2003 in Monrovia, Calif. The BASC expanded its format to include tabletop exhibits by the presenters and exhibitors. Attendees were given an opportunity to see

samples of gift cards and loyalty cards, ask questions of the providers and get firsthand knowledge of how to start and/or build a successful gift and/or loyalty card program.

Payment-processing options are expanding and revenue spread from the bankcard side is shrinking, making it vital to be able to generate additional revenue through other product lines and "lock in" merchant relationships with add-on products.

Presenters at the BASC meeting included: Le Ann Power, Executive Sales Director, Valutec Card Solutions; Marilyn Kilcrease, President, Creative Card Solutions; and Steve Eazell, Director, National Sales and Marketing, Secure Payment Systems.

Additionally, I presented a sneak preview of the September issue of GSQ, "ATMs Through History."

The next meeting of the BASC is scheduled for November 5-6, 2003. This will be the BASC Annual Vendor Expo, "Sailing the Seven Seas with Card Services." The Vendor Expo will begin on Wednesday, November 5 with a cocktail reception from 5-7 p.m.

For more information or to register for the November event, please contact:

Sherry Friedrichsen
BASC Board Member
760-243-7990
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Financial Women International

FWI's 81st annual meeting took place September 6-9, 2003 in Honolulu. The meeting, which included attendees from throughout the U.S. and Canada, was a resounding success. The meeting sponsors included

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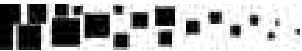
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American Savings Bank, Bank of Hawaii, People's Bank, San Diego National Bank and The Green Sheet.

The mission of FWI is "to help women in the financial services industry achieve success in their careers." Each of the general and breakout sessions was focused on achieving this mission. Presenters included: Betsy Duke, Vice Chairman, American Bankers Association; Carol Frohlinger, principal, The Shadow Negotiation, LLC; and Carol Crilly, VP, Human Resources, Citizens Development Co.

The meeting culminated with FWI's annual awards dinner. Extraordinary achievement awards were given to the group and district of the year, Orange County Group (Calif.) and Golden West District (Calif.), respectively.

These awards were based on astounding results in membership recruitment, member accrual, fund-raising and program implementation.

The Graduate School of Banking (GSB) at the University of Wisconsin awarded its annual FWI scholarship. This award covers one-third of the student's tuition for each of the three years of the program. Additionally, FWI matches the award each year. The

2003 GSB/FWI scholarship winner is Melissa M. Curzon, California Bank & Trust.

The Virginia D.H. Furman Award (named for the first president of FWI) is awarded each year to the member who most exemplifies the goals and mission of FWI. The 2003 award winner is Judy B. Henry of Huntington Beach, Calif.

Henry has been a member of FWI since 1994. Building strong leadership within the Golden West District was one of Judy's major goals in the last year. As local groups struggled with declining recruitment and retention, Judy held personal meetings with group presidents to assist them with these tough issues and support them with ideas.

She conducted a variety of leadership-skills programs; topics covered included meeting skills, strategic planning and team-building.

FWI's third annual "Partner In Success" award was given to The Green Sheet in recognition of our efforts "to support FWI's mission to help women in the financial services industry achieve career success."

Our staff connected with this association in 2002 and

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immediately focused on the unique benefits afforded to women MLS/ISOs and industry vendors within the FWI organization. We strongly encourage our readers to contact the FWI group in their area.

The FWI recently established an Alternative Member Program (AMP), which incorporates a financial incentive for members to form new groups within the FWI charter.

Women who are successful sales professionals in the payment processing industry are uniquely qualified to further their success through the AMP program. For more information on this program, please contact:

Julie Cripe
juliec@omnibank.com.

For more information on FWI, contact:

Penny Dudley
Executive Director, FWI Foundation,
703-807-2007
pennyfwi@aol.com
www.fwi.org

Western Payments Alliance

Western Payments Alliance's Payments Symposium 2003 is scheduled for September 28-30, 2003 at the Palace Hotel in San Francisco. This year's Symposium, which features nearly three dozen speakers, including keynotes from:

- Richard Hartnack, Vice Chair, Union Bank of California and Immediate Past Chairman, California Bankers Association, on "Who and What Is Driving Change in the Payments System?"
- Leonard Heckwolf, Senior Vice President, Bank One and Chairman of NACHA-The Electronic Payments Association, on "The Next Generation of ACH Processing."
- Paul Vessey, Executive Vice President of Sales and Integrated Solutions, Visa USA, on "Debit Cards vs. Checks: Replacement or Peaceful Coexistence?"

Learn about strategic directions in payments processing, new technologies and solutions, fighting fraud and vulnerability in the payments system, the changing economics of checks, a new pilot project for deposited and returned truncated checks, and payment outsourcing.

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Southeast Acquirers Association

The Southeast Acquirers Association (SEAA) annual Information and Educational Conference is scheduled for October 9, 2003 at The Rosen Centre Hotel in Orlando, Fla.

After evaluating attendee feedback from last year, the SEAA has expanded the time with the vendors. SEAA will kick things off at 7 p.m. Wednesday, October 8 with a Vendor/Attendee Welcome Reception. Registration begins at 9 a.m. Thursday, October 9, and the exhibit hall will open at 9:30 a.m.

The meeting will start at 10:45 a.m. The continental breakfast, educational seminars, lunch, speech by a nationally renowned motivational speaker, exhibit hall and cocktail reception will be covered by your attendee fee of \$75. On Friday, October 10, please join the SEAA for a Wrap-up Breakfast at the hotel.

For additional information and registration, please contact:

Audrey Blackmon
916-563-7845
ablackmon@posportal.com

Margaret Jordan
407-774-6569
margaret@lipmanusa.com

The National Association Of Payment Professionals

The NAOPP kickoff event is scheduled for immediately following the SEAA meeting, from 10 a.m. to 4 p.m. October 10, 2003. This meeting also will be at the Rosen Centre Hotel in Orlando, Fla. (800-800-9840).

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The meeting will focus on launching the new association, whose mission was formed under the concept of being the voice of the "Feet on the Street," the Merchant Level Salesperson. Industry leaders will be available in Q & A panel sessions to address questions from the attendees. For more information and registration, please contact:

Steve Norell
steven@usmsllc.com

Keri Golden
golden@pos-usa.com

Electronic Transactions Association

The ETA will conduct its "Introduction to Electronic Processing" educational seminar in conjunction with the SEAA and BASC meetings. In each case, the seminar will be at the same hotel as the regional meeting.

- SEAA: Wednesday, October 8, 2003 from 8:30 a.m. to 4:30 p.m., immediately before the SEAA meeting.
- BASC: Wednesday, November 5 from 8:30 a.m. to 4:30 p.m., immediately before the BASC meeting.

"Introduction to Electronic Processing" is the first course

of the newly developed ETA University. It provides a broad overview of the acquiring industry and aids in understanding the often complex and intriguing process of electronic payments. Anyone employed in the various facets of the business – from financial institutions, ISOs, processors, hardware manufacturers and software developers to card associations/companies – will benefit from this course.

The class will focus in-depth on a "day in the life" of a transaction. In addition, it will provide an explanation of issuers and acquirers, an overview of the business and the route and steps involved with a transaction, the role of third-party providers, risk and security issues, and a brief overview of changing dynamics within the industry. ☑

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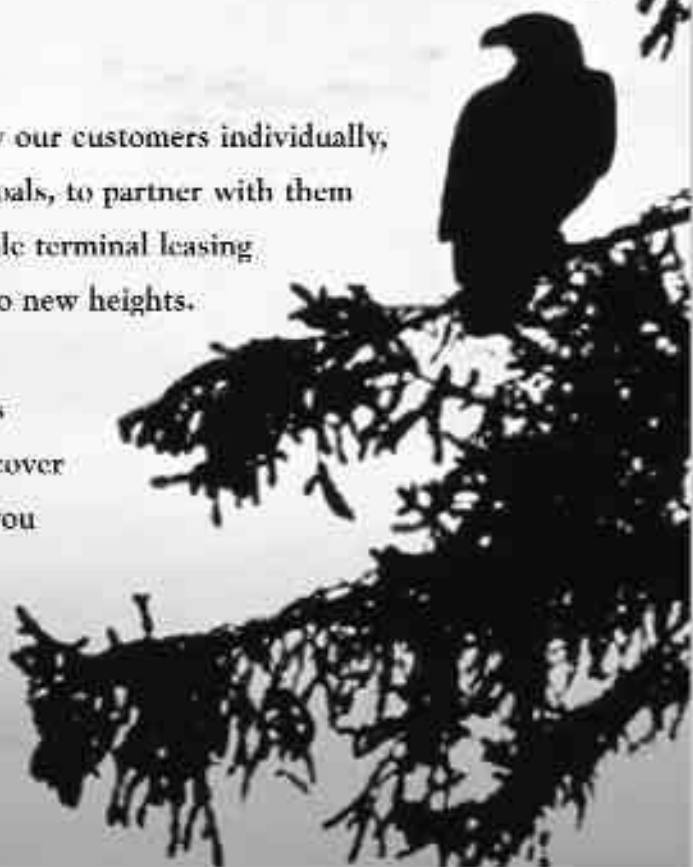
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WHITE PAPER

REVIEWED BY

Eric Thomson

The Fear Factor in Internet Fraud

Research Report: Internet Payments Fraud: A Primer for Merchants and Financial Institutions

Authors: The Internet Council, NACHA-The Electronics Payment Association

Date: February 3, 2003

Size: 44 pages

Relevance Rating: Medium-high

Web Address: <http://internetcouncil.nacha.org/docs/Fraud%20Paper%20Final%20%20Jan%20%2703.pdf>

As Internet commerce grows at rates many times that of the economy overall, there are increasing pressures to expand the payment options so that greater numbers of consumers can join this buyer community. Credit cards typically have accounted for more than 98% of Internet consumer purchases.

It is widely known that almost 50 million consumers are either without a credit card or are within 5% of their buying limit but have disposable income in their checking accounts. Consequently, the electronic low cost access to consumer checking account funds makes the Automated Clearinghouse (ACH) an attractive payment alternative to credit cards for Internet merchants. This document details the fraudulent activity associated with Internet payments with special emphasis on ACH fraud issues and preventive measures.

Executive Summary

The scope of this white paper covers a range of Internet fraud types: transaction-level fraud, identity theft and merchant-level fraud. While there is some commercial usage of ACH payment over the Internet, the focus of this report is upon consumer retail payments. Before delving into these topics, let's first look into the features of the ACH network that represent fraud exposure.

- No Real-Time Authorization Mechanism – The ACH network does not provide the confirmation in real-time that a consumer account exists or has funds in it.
- 60-day Right of Recredit/Return – The NACHA Rules permit consumers to return ACH debits as unauthorized for up to 60 days from the settlement date.

- Batch Settlement – All ACH transactions are processed in batch mode, meaning that funds transfer and returns notification may take one to two banking days to process. A fraudster could conduct many fraudulent transactions and it would take days or, in the case of unauthorized transactions, months for a financial institution or merchant to detect the fraud.
- No Match between Name and Account Number – ACH payments settle on the basis of the account number provided in the authorization. The NACHA rules do not require a check to determine if the name of the consumer authorizing the payment matches that account number.
- Lack of Standardized Account Number Structure – There

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is no national database of ACH account number structures. This makes it extremely difficult to validate account number structure before submission of items into the ACH network.

Regulation E provides the governing law for consumer electronic payments such as ACH; the essence of this legislature is to protect the consumer against financial loss whenever there is uncertainty as to who is negligent in a disputed transaction.

A payment service with the five previously listed deficiencies is open to considerable fraud exposure that will either be absorbed by the originating depository financial institution (ODFI) or the Internet merchant. With the exception of merchant fraud described below, in most cases the retailer is going to absorb the fraud losses as a result of signing the ODFI/Originator agreement.

ACH Fraud Categories

1. Unauthorized Transactions

In the physical world, a customer's signature is required to provide evidence of assent to debit their checking

account via ACH. On the Internet, obtaining both identity and assent is difficult at best. The governing law for electronic consumer payments is Regulation E, and for a transaction to be valid there must be "similar authentication" for Internet-initiated transactions. The test needed to satisfy this regulation is two-fold:

- a. Evidence of Assent – The authorization must be clear and conspicuous. Consumers must be able to acknowledge that they are providing permission to debit their bank account for a specific amount on a specific date/period.
- b. Evidence of Identity – The Originator must ensure that authentication provides evidence of the consumer's identity.

These requirements are difficult for most Internet retailers to satisfy, and they translate into a major loophole for consumer accountability. Lacking a mechanism for being able to match the consumer's name to an account number, this level of integrity authorization is unavailable to payment settlement parties in an ACH Internet transfer. Furthermore, there is no automated means for a merchant to respond to a chargeback through the ACH network.



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This Reg. E protection was designed to ensure that consumers had at least one checking account billing cycle to review their bank statement for any unauthorized electronic debits. Compounding this risk is the fact that the consumer's financial institution is under no obligation to determine the validity of the consumer's dispute.

This lack of settlement finality represents a major exposure to both the ODFI and retail merchant. A number of smaller commercial banks have been run into bankruptcy by signing fraudulent Internet merchants that have made ACH deposits and never fulfilled their side of the consumer's transaction and then became buried in ACH return-item chargebacks after the merchant has withdrawn deposits.

3. Consumer Fraud Against Merchants

The ACH batch file depository feature opens merchants to exposure of various types of fraud – especially if the merchandise is shipped following purchase. ACH returns can take two to four days to be received, depending on the deposit timing and the nature of the return. Examples include NSF, account closed or no account on file.

4. Fraudulent Use of Stolen Bank Accounts

This type of fraud occurs as a result of identity fraud; it can take 30 days or more for it to be identified and for measures taken to recover the losses. Criminals can use a stolen identity to wipe out a victim's credit, finances and reputation because of the speed and anonymity of Internet transactions.

The source of details needed to take over an identity are extensive and include employer files, bank personnel, government employees, Internet merchant customer service staff, etc. Change-of-address forms are typically used to route broker, bank and credit card statements before a concerted identity fraud is committed, including ACH transfers.

5. Transaction-Level Fraud

There are three primary categories of this type of fraud:

- a. Transport Vulnerabilities – Interception of financial data, user names and passwords transmitted in an unsecure environment. An attacker monitors Internet network traffic to accumulate funds-transfer details for future use. Once these detail are accumulated on a number of accounts, a large batch of ACH deposits are made into

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The advertisement features a stylized illustration of a detective in a trench coat and hat on the left. A speech bubble next to him says "Made in the USA!". To the right, the text "GO software" is prominently displayed, with "GO" in a large, bold font and "software" in a smaller font. Below this, it says "an **ROI** company". At the bottom, there are three circular icons: the first shows a close-up of an eye, the second shows a hand holding a stack of money, and the third shows a person's face. Each icon has a label: "PC Charge Express", "PC Charge Pro", and "PC Charge Desktop" respectively.



a merchant's account and funds are withdrawn before returns become noticeable.

- b. Price Changes – Fraudulent modification of the original transaction approved by the consumer – typically, the merchant increases the amount of debit.
- c. Username and Password Cracking – This is accomplished through a combination of multiple attempts to gain access to confidential information or authority to make purchases. Various shopping cart programs have been identified as relatively simple to penetrate and capture customer credit card and ACH account details.

6. Merchant-Level Fraud

Sensitive personal information can be compromised in a number of ways within Internet merchant organizations:

- a. Employee-Initiated Fraud – points of vulnerability include programmers and database administrators, customer service representatives, accounting and finance personnel.
- b. Fraudulent Auction Sellers – According to FBI internet fraud center, over 60% of internet fraud complaints are auction related. The simplest approach is for the seller to accept payment and never fulfill on their side of the

transaction. By capturing the victim's financial information, the exposure now exists for making additional purchases at other online merchant sites. Triangulation is another auction fraud that starts with the purchase of merchandise (typically electronics) from a reputable merchant using fraudulent bank account information for the ACH transfer. The ship-to address is the home of the "winner" in an on-line auction who has paid the criminal and transferred their banking information – thus setting off another round of fraud.

- c. Spoofing – This is the process of impersonating a reputable organization to obtain financial details from unsuspecting consumers. This typically is done either by e-mail on "counterfeit stationery" or through the creation of a duplicate Web site. Once on the Web site, offers are made to collect banking account information that is used to originate fraudulent ACH transfers.
- d. Merchant Non-Delivery/Bankruptcy-Related Fraud – The victim's funds are collected but merchandise is never delivered or bankruptcy is declared prior to delivery of goods.
- e. Hacking into a Legitimate Merchant Site – A hacker breaches a merchant's security and gains access to their database of customer financial account information.

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Fraud Impact on Various Parties to Internet ACH Fraud

1. Consumers

According to this report, the average online auction fraud loss was \$478 in 2001. For identity fraud, the losses can extend much further than monetary loss, to include credit damage, employment and reputation. The larger cost to society is the Internet commerce that is never conducted by tens of millions of consumers who have security and fraud concerns.

2. Merchants

Merchants not only bear the financial loss of the merchandise fraudulently taken from them but also the shipping costs, payment and chargeback fees. Beyond these losses are the investments needed to prevent fraud, such as screening services, system security and insurance fees.

3. Financial Institutions

Fraud generates a series of costs, starting with customer calls about disputed transactions, internal records research and retrieval, fraud prevention and detection systems along with extensive regulatory reporting and insurance premiums. These costs exist on both the consumer and merchant side of these transactions.

4. Payment Networks

Non-bank payment processors incur substantial costs and losses as originators because of ACH fraud along with investments in fraud-detection technology and security barriers to unauthorized access to confidential customer information.

Managing Fraud Risk Exposure

1. Fraud Prevention

This section of the white paper describes the need for real-time verification, fraud screening and customer and merchant authentication. Of course, in a batch, offline settlement system such as ACH, none of these capabilities exists. Internal audit and control procedures are listed, including separation of duties, background screening of employees and education. There also is mention of the need for merchant screening and secure data-management controls.

2. Fraud Detection

This section addresses the listing of risk filters to identify aberrant transaction characteristics, primarily in merchant ACH deposits. This precaution applies to the ODFI. Unfortunately, there are no such protections for the Receiving Depository Financial Institutions. For the

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RDFI in ACH processing, all incoming debits and credits are assumed to be valid and are automatically posted to their customer's accounts. Most commercial bank accounts restrict ACH access to their funds because of past fraud losses that have been widely publicized in corporate banking publications.

3. Remediation

The process of assisting fraud victims to recover their losses and to identify and prosecute fraud criminals. This section of the report describes fraud reporting, investigation and recovery of losses.

In conclusion, this document does an excellent job of detailing the various fraud exposures inherent in processing ACH payments over the Internet. Unfortunately, it is unable to provide the reader with assurances that available ACH technology or internal banking controls are anywhere close to those provided by the credit/debit card industry for managing this type of risk. 📄

Web Sites for More Information on Internet Fraud

www.gocsi.com

Computer Security Institute

www.ftc.gov/bcp/menu-credit.htm

Federal Trade Commission Consumer Protection Site for Credit and Payment Services

www.occ.treas.gov

Office of the Comptroller of the Currency, regulator of national banks

www.techtv.com/cybercrime/aboutus/story/0,23008,3363041,00.html

CyberCrime Glossary

www.iafci.org

The International Association of Financial Criminal Investigators

www.treas.gov/topics/law-enforcement/index.html

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Eric Thomson is Executive Vice President of Profit Source Advisors. He can be reached at eric.thompson@profitsource.us.

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COMPANY PROFILE ◀◀◀



Nationwide Payment Solutions, LLC

MLS contact:

Jamie Nonni, Chief Operating Officer
 Phone: 877-290-1975 x. 210
 Fax: 877-766-6896
 E-mail: jnonni@GetNationwide.com

Company address:

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Training to Get Your Portfolio on Track

Ask Merchant Level Salespeople about any training they've had, and they'll probably respond, "What training?!" The fact is, if you're an MLS, you probably know what you know because you learned it the hard way – from mistakes you made along the way.

ISO/MSP Nationwide Payment Solutions, LLC strongly believes in taking time to train its agents – not only to make better salespeople but also to bring in bigger and better merchants. Nationwide wants its sales reps to be the best trained in the industry.

"The results we've seen for agents are bigger residuals and bigger volume," said Jamie Nonni, Chief Operating Officer at Nationwide. "Maybe the training even helps give them the confidence to sign accounts they never would have approached."

Jamie Nonni, Brian Stevens and Patrick Allen, the principals of Nationwide, have nearly 30 years of combined experience in payment processing and sales.

They share this knowledge with their sales force through Nationwide IMPACT!, an intensive month-long training program intended to help agents achieve higher residuals and improve merchant retention.

Nationwide is registered under

Buffalo, N.Y.-based HSBC Bank and provides merchants with credit and debit card processing and several value-added solutions such as electronic check services, gift cards and long distance.

This MSP targets a variety of merchants, including retail, restaurant, lodging/hospitality, mail order, petroleum, auto dealers, colleges, car rental, government, grocery stores and fast food.

Nonni, Stevens and Allen founded Nationwide in November 2002, shortly after the company where they worked as sales managers was acquired. The men decided to venture out on their own.

"We saw there was opportunity to form a company because there was unemployed talent in the area as a result of the acquisition," Nonni said.

The threesome obtained funding, established several partnerships on the back end and began processing within seven days, albeit on "an informal, skeleton-type basis," he said.

Nationwide reaches its merchants through two independent sales channels – a network of more than 120 Merchant Level Salespeople and seven regional managers scattered throughout the U.S.

The regional managers are highly



experienced bankcard sales professionals who build and manage sales teams and recruit salespeople outside the industry. Nonni said Nationwide adds about 10 new sales reps each month, some with prior experience in the industry, some without.

"We hand our regional managers leads that we get from recruiting and help them build up their sales force," Nonni said. "And we provide training through Nationwide IMPACT! to get those people started."

Nationwide IMPACT! is a 16-hour training class focused on how to be successful in the field in order to build a residual-based portfolio. It's intended for all different levels of salespeople.

Attendees learn how to target merchant accounts that process at least \$240,000 a year. Topics covered include prospecting, statement analysis, relationship evaluation, documentation, installation, follow-up skills and retention; the class also provides plenty of sales ideas, fresh approaches and success stories for inspiration.

Nonni leads the sessions over the phone while trainees (typically 15 to 20) follow along using Web-based materi-

als downloaded from Nationwide's Web site. Class meets twice a week for two hours – a total of eight classes. Anyone who misses a class can download a taped audio file of it from the Web site.

"The training is a good steppingstone for new people who want to know what to ask their merchant customers," said Gary La Tulippe, President and CEO of Schmooze, Inc. and also a Regional Manager for Nationwide. "It gives them a head start on the industry and helps them focus on where they have to go and what they have to do to get there."

In his role as a regional manager, La Tulippe provided input for the training classes. He said he and the other regional managers also took the class themselves.

"Both new recruits and seasoned salespeople have done the training, and the feedback we've received is they've all learned something and it has improved the way they do business," Nonni said. "Many of the experienced salespeople have said, 'I never thought of doing it this way.'"

Nonni said one particular agent who received training from Nationwide took the time to write a letter of praise. Tanya Hauss, owner and President of Merchant Sellutions, Inc. in South Florida, wrote: "I have other choices where I can place my business, but I choose Nationwide because I know I will retain my customers. Your service is the best!"

Hauss told The Green Sheet, "Any new sales rep or any old sales rep can get a deeper understanding of the industry and how it works. The training can help sales reps improve their customer retention rates."

Bob Busanovitch, an independent sales agent for 2 1/2 years, attended Nationwide's very first Nationwide IMPACT! class. Busanovitch said the training helped him decipher the complexity of interchange rates and helped him learn how to communicate rates effectively to his merchants.

"(Nationwide) wants to get a feel for their agents out there, and whatever we're lacking, they'll try to provide," Busanovitch said. "They keep modifying their training and support to fit our needs."

Nationwide's own in-house merchant support/help desk team is available 24/7/365, but the company also makes sure its agents are involved in servicing merchants beyond the installation. Nationwide does this through an automated agent-notification system that informs agents what is going on with their accounts.

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salesperson assigned to that account will receive a "contact report" within minutes after the call. The report contains a complete description of what was discussed on the call and any pertinent historical information.

This process allows sales agents to monitor their accounts and contact a merchant to verify that any issue has been resolved to the merchant's satisfaction.

"We have found that merchant retention has been phenomenal," Nonni said. "If you empower your sales reps to be in the loop of communication with the merchant and the support team, then they will be able to service that account even better than the company can."


Another program offered by Nationwide is an Agent Rewards Incentive Program. It allows productive Merchant Level Salespeople the opportunity to earn points for monthly applications, processing volume and quality of accounts.

Each point earns \$25 and is paid without sacrificing any portion of the residual stream. It is not uncommon for a salesperson to earn in excess of \$500 in reward money in a given month.

"We are excited about this program and feel it is attractive to agents who are struggling financially while in the process of building their residuals," Nonni said.

"We have excellent agent retention. If we lose someone, it's typically not because of anything to do with us – the training or the company – it's because that person can't afford to get to the point where their residuals will support them. That's the challenge."

Nonni said Nationwide designed all of its programs and services in order to attract a higher caliber salesperson – someone who sees value in doing business with them because of the training and programs they offer versus doing business with them simply based on rates.

"MSPs tend to overlook the real value of the salesperson," he said. "It's important to remember that the salesperson is the one who brought the relationship to you in the first place. I'm talking about the value that a quality service-oriented salesperson brings – it's one of the most important ingredients in our company." 

To receive future Nationwide Payment Solutions press releases, e-mail jnonni@GetNationwide.com



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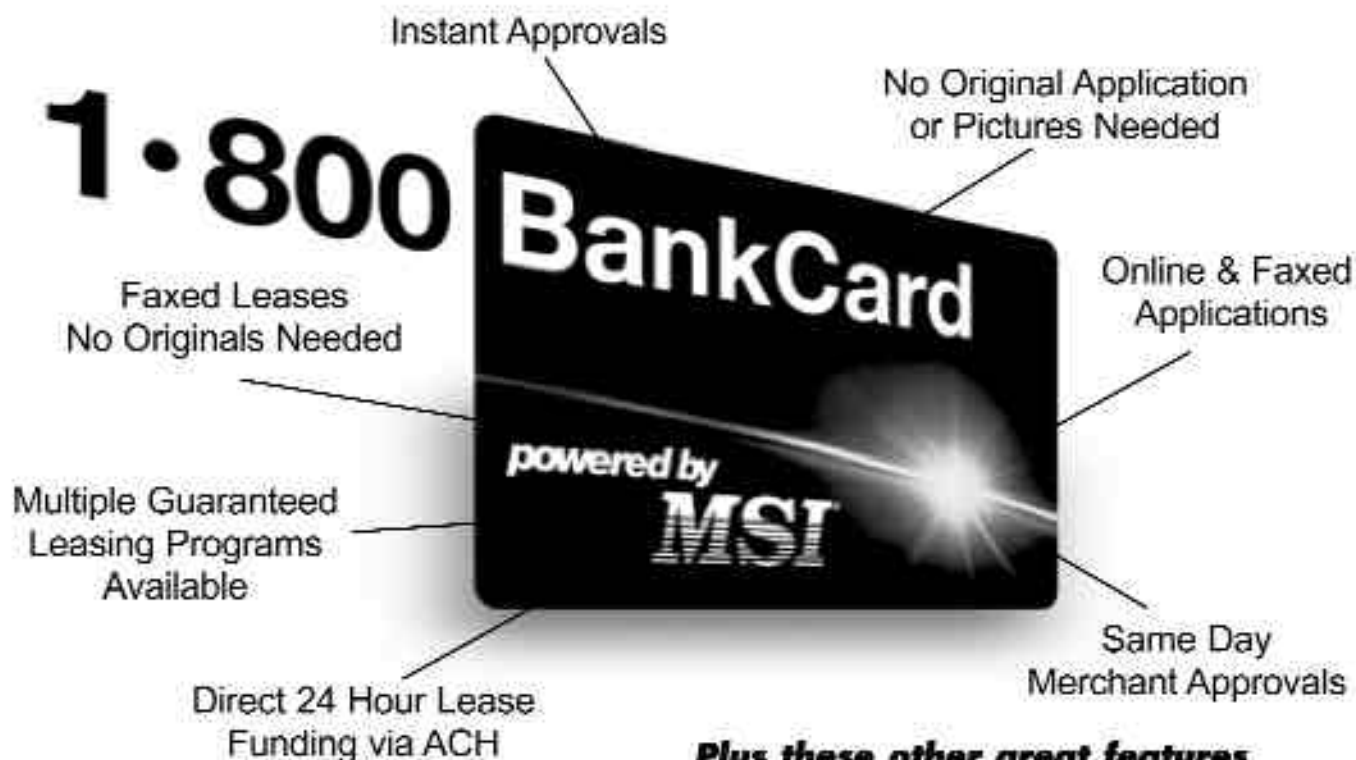
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Since the PayPass card also has a magnetic stripe, consumers can use it at any location where MasterCard is accepted.

MasterCard says merchants will benefit from PayPass because the solution is even faster than accepting cash, so consumers speed through the checkout process. Average transaction amounts increase compared to cash, and PayPass may help attract new customers and increase their loyalty to the store.

MasterCard doesn't want retailers to make extensive software or hardware modifications to participate in the PayPass pilot. Retailers already using a Hypercom terminal for credit and debit card acceptance, for instance, can add a radio frequency (RF) reader to their terminal with minimal additional changes, Hypercom said. Fazoli's had used Hypercom terminals in its restaurants before beginning the PayPass pilot.

MasterCard has partnered with Chase, Citibank and MBNA, three of its key member financial institutions, in the PayPass pilot, which includes more than 16,000 cardholders and approximately 60 different merchant locations in Orlando.

Hypercom Jumps on Contactless Wave

Product: Contactless Payment Terminal for MasterCard PayPass Pilot

Company: Hypercom Corp.

Hypercom Corp. announced its involvement with MasterCard International's PayPass contactless pilot in Orlando, Fla. Hypercom is incorporating a special antenna and reader into its ICE 5500Plus and ICE 6000Plus point-of-sale terminals to make them fully compatible with MasterCard's contactless payment solution at Fazoli's Italian restaurants.

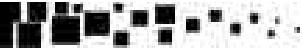
The MasterCard PayPass card contains a magnetic stripe, an embedded computer chip, or smart card, and a tiny antenna. When card users tap or wave their card on any payment terminal (such as Hypercom's) at PayPass-accepting retail locations, cardholder account information is transmitted wirelessly – it gets communicated directly to the terminal and then processed through MasterCard's network. No card swiping or signatures are required for transactions under \$25.

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Fewer Manual Steps for E-commerce Merchants

Product: CyberSource Reconciliation Solution


Company: *CyberSource Corp.*

Many large-scale e-commerce merchants have order systems and payment systems that are not completely integrated, so most of them would agree that the process of reconciling electronic payments with receipts and managing chargebacks involves too many manual steps. CyberSource Corp. offers a customized and highly automated Reconciliation Solution that helps eliminate most of these manual steps.

A typical non-automated reconciliation process involves first visiting the processor's Web site to download deposit and chargeback reports. Then, employees must enter data from these reports into a spreadsheet or other tracking system. Next, resources gather order data and conduct searches for each order based on cardholder account information, followed by a review of the action necessary. After all this, the final steps after taking action of any kind are to update the order system and the reconciliation tools.

CyberSource says its Reconciliation Solution automates

nearly 90% of this process. The software compares order data recorded by the merchant with payment activity data automatically downloaded from the merchant's payment processor. It can automate actions for resolving discrepancies and chargebacks, based on business rules established by the merchant. It generates exception reports. An administration interface provides consolidated access to reports, case status and administration, and all associated order information.

Merchants benefit from increased revenue capture, reduced overhead costs in resources, quick identification of order problems and increased customer satisfaction. The CyberSource Reconciliation Solution is a customized solution and requires installation by a professional services team. The software runs on Microsoft Windows 2000 and on Sun Solaris. 

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INSPIRATION ◀ ◀ ◀

Your Mission, Should You Choose To Accept It

Second in a series on developing a business plan

Mission Statement of The Green Sheet: "The Green Sheet exists to offer 'Motivation, Inspiration, and Actionable Advice' to MLS/ISOs. In serving the MLS/ISO community, The Green Sheet not only strives to inform sales professionals of a wide range of income opportunities, but also works to give these professionals a voice and a forum – a voice that, for lack of a forum, may have gone unheard."

One of the first steps to starting your business plan is writing a mission statement. It is also one of the hardest parts of preparing your business plan. This step requires a lot of thought and patience. But the mission statement is the heart of your business, so the time invested will be well worth it.

The mission statement is an important tool to describe the purpose, values and standards of your business. A good mission statement will help guide you as you make critical business decisions. It can be used as a motivational tool ... and a marketing tool, too.

The process of writing a mission statement can help you to clarify the goals of your business. To begin, make a list of your goals and expectations for the business. Get feedback from your co-workers and friends and family. The people involved in your business must understand and believe in the statement. You all will be working together to fulfill the mission of your business.

When you actually sit down to write the mission statement, keep the following in mind:

- **Keep it brief.** The mission statement should be a short description, not a detailed one. You will have a chance to fully describe all of the details of your business later in the business plan.
- **Pick a theme.** Because it is brief, you need to keep your mission statement focused. Include what your busi-

ness does, how or where you do it, for whom you do it and why.

- **Use broad terms** so you don't limit your business. For example, instead of saying you "process credit card transactions," say, "XYZ Company provides payment services for ..." This leaves many new paths open to your business and will not box you into one business line in the future.
- **Make each word count.** Use action words to convey a feeling of passion.

Your mission statement needs to be visionary but at the same time realistic. Your goals can be lofty, but be sure they are attainable. You always can revise the statement in the future to include new ideas and technologies.

There are many resources available to you to assist in the development of your mission statement. There are Internet sites devoted to this, and many books are available. There even are software packages available to help in not only writing your mission statement but your business plan, too.

Once you've written your mission statement, print it, frame it and make it a visible part of your business environment. Read it daily. Each decision you make, every action you take in building your business should reflect your mission. If an idea or opportunity that comes your way is not "on target" and is not in keeping with your mission statement, then acting upon that idea will take you off course. Stay true to your mission statement and you will attain your goals.

Transition Your Ideas from Brain to Paper

Second in a series on effective ad campaigns

When a theme or an image for your advertisement is determined, it's time to assess who is going to create the artwork. It's standard to look within the ranks of the company if you don't already have a marketing department. But for the love of all that is good and right, don't enlist your



Food Marketing Institute 2003

Retail Electronic Payment Systems Conference

Highlights: FMI's membership includes 2,300 food retailers and wholesalers who operate 26,000 retail grocery and convenience stores in the United States with a combined annual sales volume of \$340 billion. Four separate business functions – information technology, operations, finance and marketing – are areas that overlap and affect electronic payment management. This conference will examine various forms of retail electronic payments and new technologies that are replacing the use of credit cards as well as the impact they have on the ways merchants conduct business. Emerging and innovative payment technologies, such as biometrics, RFID, stored-value cards, EBT encryption and an update on the Visa/MasterCard settlement, are among the topics to be covered. The cost of processing transactions with the new technologies, convenience for consumers, standardization and integration also will be discussed. Lloyd Constantine, lead counsel for the plaintiffs in the Visa/MasterCard lawsuit, will deliver the keynote address. Jerry Grundhofer, U.S. Bancorp Chairman, President and CEO, will be the keynote speaker at the conference's opening dinner.

When: October 13-15, 2003

Where: Hotel Monaco, Washington, D.C.

Registration: Visit www.fmi.org. Phone 202-452-8444.

Smart Card Alliance

Fall 2003 Conference – "Smart Cards in Motion"

Highlights: The Alliance's fall conference brings the best and brightest minds in the industry together in one place and offers the best opportunity to learn about the role of smart cards in the growing North American market. Since 1999, more than 150 million units have been shipped here. Analysts predict a market value of \$475 million by 2006. "Smart Cards in Motion" is about mobility and how vertical markets – such as banking, retail, transit, government, pay TV, and wireless – are rapidly adopting smart cards based on new chip technologies hitting the market that are faster, lower in cost, with larger capacity, and in more mobile (contactless) forms than ever before. The form factor and operating characteristics may vary, but the chip technology remains at the core of what's driving these issuers of smart cards. Before the start of the conference, the Educational Institute offers two full-day courses:

"Introduction to Smart Cards," which provides a foundation of knowledge about smart card standards, market trends, security features and practical issues related to business applications, and "Advanced Business of Smart Cards," which expands on the basic functions and applications of smart cards and looks at business trends and implementation strategies.

When: Educational Institute courses – October 13, 2003; Conference – October 14-16, 2003

Where: Sawgrass Marriott Resort, Ponte Vedra Beach, Fla.

Registration: Visit www.smartcardalliance.org

nephew who knows how to make yard sale flyers with Microsoft Publisher!

Often, the cost of the project is a stumbling block. It's wise to keep your ideas flexible and your ego in check. If you have to start off small, a good design will bring you the business and revenue it takes to step up your efforts.

A professional ad campaign must be established with a qualified designer or agency. If you try to cut corners and save a couple hundred dollars, your business may suffer for it. Enlist the services of a designer who is familiar with the type of ad or campaign for your company. Your research should include asking your colleagues for referrals and checking the local business directory.

After the details of the partnership have been secured, show examples of the publication to the designer. As mentioned in part one of this series, it's crucial to get a sense of the target audience and what pushes their buttons.

In your search for a compatible artist or agency, make sure you find someone who can produce the ad materials according to the specifications of the publication. Taking the extra steps to research qualifications will save mountains of money and valuable time as well. Ask about the programs your artist(s) will use to create the design. Buzzwords to listen for are Adobe PhotoShop, Illustrator, and InDesign; Quark Xpress; Freehand; and CorelDraw.

It may seem like a formality, but it is a must that they are up-to-speed with technology and the industry standard in design software. Case in point: The Green Sheet often receives, as ad copy, Microsoft Word files made into boxed tables and a garden variety of fonts. This is wrong in many ways – low resolution graphics, unlinked fonts and artwork, and a format incompatible with Quark Xpress. Specifications should be readily available from the publication, either online or in print, and you must adhere to them.

After the final arrangements have been made with the artist or service bureau, be clear about your concept and what you want to achieve with the ad, and make sure the ad properly reflects your company's image. For many readers, this will be their first impression of you.

Next: Quality control and the submission process.

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